

Thinking ahead and moving forward

Central banking in the era of instant payments

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First of all, I’d like to thank Banco de Portugal for inviting me to speak here today. The fact that the event is being held in such a magnificent venue only adds to the overall experience. Once filled by crowds of worshippers, the church of São Julião now serves as the Money Museum of Banco de Portugal, a hotspot for forward-thinking initiatives like the one we are discussing today. In this space, where past and future interlace, I would like to speak about the future of payments and the digital transformation of our world.

Our future will be shaped by the increasing demands modern society is putting on our time. Now more than ever, time is viewed as a commodity. Smartphones and virtual workspaces are just two examples of how technological advancements are reshaping our daily routines, gradually getting us accustomed to instant gratification. One direct implication is that today’s consumers expect their needs to be met immediately, anytime, anyplace. And as purchasing habits progressively shift focus from tangible goods to digital services, an inevitable question arises: is this new instant society also moving from cash to digital forms of payment?

Digital transactions have been dominating the news lately, largely due to the hype surrounding crypto-assets. But we didn’t need bitcoin to show us that customers have faith in digital payments; this has been the case ever since electronic banking became popular in the 1990s. Not to mention the strides

made in the burgeoning card industry over the past two decades, a matter near and dear to the Portuguese who seem to be quite the card aficionados. Indeed, according to [ECB statistics](#), the Portuguese opt to use cards two times out of three when dealing with cashless transactions; to be outdone only by the Danes!

And in this brief description of the current financial ecosystem, we should not forget e-commerce payment services, which have taken off in recent years thanks to the growing popularity of online shopping.

If all of this sounds like a lot to take in, that's because it really is. The development of different initiatives has reintroduced the risk of fragmentation for the European market, almost a decade after the Single Euro Payments Area (SEPA) first became a dominant force in the electronic payments field. Thankfully, the European Commission has successfully revolutionised the regulatory environment with recent initiatives. One example is the revised Payment Services Directive (PSD2), which has updated the common rules and standards for online and mobile payments made across Europe. Nevertheless, the operational side still needs to be harmonised.

Specifically, when it comes to processing, most consumers today are under the impression that digital transactions take place in real time. In reality though, settling electronic payments often requires a full business day. The rationale behind such presumptions is rather straightforward. The new generation of customers, millennials like my kids, have equated technology with speed and convenience. Pick a film, a song, an e-book and download it immediately; choose what you'd like to have for dinner and order it online right away. Instant payments are progressively turning into a prerequisite for customers like them, and European financial institutions should find themselves in the unique position of being able to fill this gap by offering innovative solutions to their end users.

The Eurosystem first began looking into instant payments in 2014, when the Euro Retail Payments Board (ERPB) – a group chaired by the European Central Bank and composed of representatives from the supply and demand sides of

the market – officially acknowledged the necessity for at least one pan-European instant payment solution. Soon thereafter, the ERPB requested an action plan from the European Payments Council (EPC), who initiated the development of a rulebook for instant payments. Last year, the EPC launched the SEPA Instant Credit Transfer (SCT Inst) scheme, which enables instant payments in euro across Europe. So far, it has been adopted by more than 1,000 payment service providers from 14 countries.

However, there are certain factors that could deter some providers from offering SEPA instant credit transfers. For instance, they will have to adapt their back-office systems and internal processes to fit SCT Inst requirements, meaning that it will be costly during the early stages of implementation, until demand picks up. Nonetheless, banks and payment service providers have to act on the demand for innovative and efficient instant payment solutions, so that consumers and businesses can make use of this payment method for any retail payment. To achieve that, it is essential that we have a market infrastructure that provides full European reach. To that end, the Eurosystem has decided to develop TIPS.

TIPS stands for “TARGET Instant Payment Settlement”. It is a service that will offer real-time settlement in central bank money, 24 hours a day, 365 days a year. Drawing on the common set of rules laid down for SCT Inst, TIPS allows providers to deliver services using an integrated platform, capable of settling in euro as well as in other currencies. Each transaction will be irrevocable and processed individually, unlike regular retail credit transfers that are normally processed in batches. Immediately after each transaction has been processed, both the sender and the receiver will get a confirmation. The participating banks can set aside liquidity on a dedicated account opened with their central bank, from which instant payments can be settled around the clock. The balance on these accounts will count towards the required minimum reserve. TIPS is expected to optimise banks’ cash flows and, as settlement is done in central bank money, reduce financial risk.

It is important for us that as many participants as possible benefit from TIPS. For that reason, it will have a flexible structure, one that builds on TARGET2’s

vast network of participants to achieve high reachability. All TARGET2 participants can open a TIPS account free of charge. As an added incentive, the Eurosystem has decided to remove entry and maintenance fees for the service, providing TIPS to payment service providers at the maximum price of 0.2 euro cent per transaction for at least the first two years of operation. In other words, for connected banks, one single euro will be sufficient to settle 500 instant payments.

TIPS is scheduled to go live on 30 November 2018. So far, software development and testing activities are progressing according to plan. Throughout the project we have been working in close collaboration with market participants through a newly established contact group as well as the Advisory Group on Market Infrastructures for Payments (AMI-Pay). Last year, we consulted market participants on the user requirements for TIPS. And we then began a public awareness campaign. This included a social media challenge asking providers to develop original mobile applications for the initiation and processing of instant payments. Shortlisted prototypes were presented at the #TIPSapp event, which was held three months ago at the ECB's headquarters in Frankfurt. The response was overwhelmingly positive, with high-level representatives from the banking and retail sectors showing active interest in the initiative.

Which brings me to a key point I want to make today: ***after all is said and done, the future of instant payments is going to be determined not only by schemes and infrastructure, but, most importantly, by the readiness of service providers to supply end users with attractive solutions.*** As we speak, various instant payment solutions are being introduced in several countries. Take MB WAY, for one, a card-based payment solution available in Portugal. The service enables users to link their mobile phone number to bank cards, so that they can go shopping or make immediate bank transfers through their smartphones and tablets. The solution is linked to Multibanco, Portugal's interbank network, meaning that users can make cash withdrawals from any Multibanco ATM without using a card. But MB WAY was not developed in accordance with the SCT Inst scheme, so it can only be used inside Portugal. I cannot stress enough that our focus should be on pan-European solutions and I

strongly encourage you to take a European perspective as you develop innovative and efficient instant payment solutions in Portugal. The Eurosystem will support your efforts by providing the underlying infrastructure – TIPS. This represents a rare opportunity for the financial industry to achieve Europe-wide reach simply by expanding their TARGET2 participation with a TIPS account. An important feature is that TIPS will settle individual payments within a fraction of a second. This is revolutionary for the retail payments landscape.

A single market for Europe is a key priority for both the ECB and the European Commission. This requires an integrated financial market infrastructure where consumers and businesses are offered Europe-wide products at competitive prices. We are offering all TARGET2 participants the chance to connect directly to TIPS at a competitive price. And I welcome the European Commission's initiative, announced less than two months ago, to take further steps towards making cross-border payments in euro cheaper across the entire EU, and not only within the euro area.

Conclusion

In conclusion, allow me to reiterate that we are now at a turning point where we can jointly shape the payments landscape for the generations to come, using a single instant payments scheme and common infrastructure for an integrated and competitive European market. In short, let's capitalise on the momentum we have now to make instant payments the new normal in Europe!

Thank you.