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INSTANT PAYMENTS COULD BE COMING TO A STORE NEAR YOU

Overcome the obstacles of switching card payments to instant payments.

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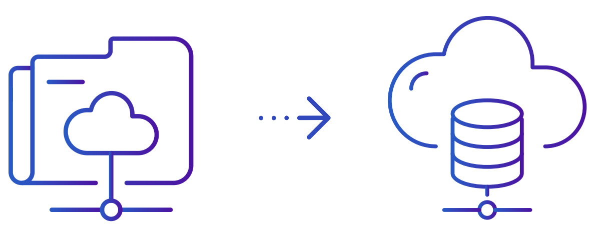
MASS ADOPTION OF INSTANT PAYMENTS IS LIKELY ON THE HORIZON

Instant payments (a.k.a immediate payments and real-time payments) have existed in the U.K. with the Faster Payments Service (FPS) scheme since 2008. In simple terms, it's an immediate guarantee of the transfer of funds from a payer account to a payee account. From the perspective of shopping, that means payment from a customer's bank account to the retailer's bank account in exchange for goods and services.

Similar instant payment schemes are now established, at least for domestic use, in over 50 countries. The speed and immediacy of these payments has enabled faster flow of money, thereby improving efficiency and convenience, and ensuring higher levels of liquidity and access to funds across supply chains. Ultimately, instant payments deliver an uplift in economic performance. However, this growth is currently only thought to be in fractions of 1% of the overall GDP of most countries.

But the bulk of these payments are still basic account-to-account payments: C2C, B2C and B2B. Request-to-pay and other instant payments initiation methods—driven by open banking—may broaden the use of these payments and drive further volume. However, the large volume of traditional in-store shopper payments – buying groceries and clothes or paying at a petrol pump – remain dominated by cards, with the bulk of those payments traversing the card scheme payment rails rather than U.K. FPS or the local equivalents.

In January 2022, 1.7 billion credit and debit card transactions were performed in the U.K. versus a mere 230 million Faster Payments. While the year-on-year growth of Faster Payments has been significant (around 20%), this payment means has not made a significant impact on the volume of traditional card payments. And, while instant payments may be growing, they're not doing so by taking significant market share from cards which are also set to increase by double-digit growth in 2022.



Card payment fees have long been disliked and challenged by merchants who believe they pay too much in scheme and interchange fees for the privilege of accepting cards, but they are easy, convenient and relatively quick for receipt of funds. By contrast, instant payments avoid card scheme interchanges, and are consequently much cheaper but are inconvenient to use. They are relatively incompatible with the "pull" payment flow that is currently the norm at the POS in a store. There has been some innovation in the instant payment schemes arena but nothing compelling for high-volume retail environments where the customer experience (convenience, speed, reliability and high approval rates) is vital.

So, how do we get payments made with cards (particularly in store which is more complicated than the e-commerce channel, and with significantly larger volumes) moved to instant payments?

There are several issues here. First, getting the instant payments "push" flow to work effectively and conveniently. Shoppers are used to cards and mobile wallets at the point of sale. This is behaviour that won't be easily changed, so the customer experience needs to be the same as it is today or relatively close – even if out of sight, the payment rails and processes are different. Retailers use technology to limit checkout time, avoid queues and minimize costs. Offering different payment methods at the POS that oppose this objective will not be easily accepted.

Point-of-sale systems today are complex applications when used in large multi-lane retail where the high transaction volumes are to be found. They're integrated with inventory and pricing systems, various hardware peripherals for scanning, weighing, etc., and typically are connected to a payment terminal. There are many different POS applications and hardware peripherals using various technologies from a multitude of vendors.

An open, industry-wide overlay service with interoperable standards, adopted by multiple parties that delivers in-store payment technology could enable the facilitation of this. That all-important customer experience at the POS needs to look and feel like today's card payment or Apple Pay use case – probably with the till or payment terminal presenting a QR code to be read by the shopper's mobile app. The app can trigger the instant payment processing, but the circle needs to be completed by getting a response back to the POS to confirm payment completion. That can be architecturally challenging but in today's omnichannel retail world, the integration between digital channels and the physical store should allow for a joined-up shopping and instant payment process.

Second, while it's good for merchants, what's in it for customers? Many shoppers like to defer payment using a credit card rather than have it hit a current account immediately, which is the typical approach for instant payments. Amazon offered customers an incentive to move to account-to-account payments as part of their threat to abandon Visa credit card payments so they could gain the commercial benefits of the lower costs of instant payments. Would grocery stores, fuel retailers and others have to do the same? Maybe not. Loyalty points may encourage the adoption of instant payments and be a price that merchants may find worth paying, but separation of the payment rails from the account that the transaction applies may also unlock additional value and provide further appeal to consumers. There's an assumption that an instant payment is a current account payment, but it need not be. That's up to the shopper's bank and that bank can decide to apply that transaction against any account record. So, the transaction could apply to a revolving credit card account, a BNPL account or a current account, and perhaps even allow the customer to determine the account using their mobile app after the event.

Then there's the issue of customer protection to consider. Regulation provides good protection for customers using card payments with a chargeback process that enables the use of a well-defined mechanism to aid dispute resolution if all other means fail. Instant payments have no such rulebook, so banks need to provide their customers with similar protection – probably as a part of an appropriate overlay service with regulatory oversight. Otherwise, the fear resulting from the well-publicized case load of unresolved Authorized Push Payment (APP) fraud will be a problem for the mass adoption of such payments and use cases.

So, there are hurdles to overcome for the mass adoption of instant payments for high street retail but the next generation of U.K. Faster Payments, known as the New Payments Architecture (NPA), has this segment of the payments market in mind. NPA is set to become an active part of the U.K.'s payments infrastructure in 2024 under the operational control of Pay.UK. The specifications provide for an instant payment transaction which is designed to simplify the "instant" nature of real-time payments. And, with third parties better able to deliver overlay services, there will be opportunity for innovation and perhaps the simplification of that POS customer experience conundrum.

The Payments Service Regulator (PSR) regulates Pay.UK and champions a cause for consumer choice of payment type, whilst the card schemes have faced sanctions for anti-competitive practices. Instant payments are not only the means to benefit from a cheaper alternative to cards, but also a way to raise payments' competition, leading to increased volumes and the narrowing of that market share differential.

There are clearly issues to overcome but it's realistic to think that lower- cost instant payment rails may deliver an alternative to the card scheme rails for payments to physical stores in the near future. That small fraction of a percentage point in GDP growth that results from instant payments may then become a whole lot bigger.

As they say, money makes the world go around.