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The rise of real-time retail payments

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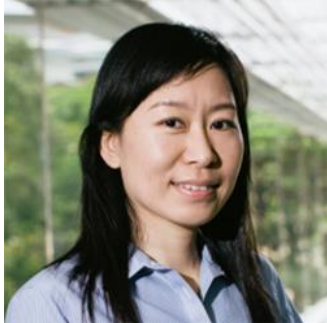
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THE RISE OF REAL-TIME RETAIL PAYMENTS



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"AN INCREASE IN THE VELOCITY OF MONEY CAN NATURALLY SPEED UP ECONOMIC GROWTH, WHICH BRINGS WITH IT IMPORTANT SOCIAL BENEFITS"

TRANSACTING for just about anything using our mobile phones has become commonplace, and so many consumers will be intrigued to discover that after making a purchase it can still take longer for payment to reach a vendor's bank account than it does for the purchased goods to be delivered.

While payment systems, or 'financial supply chains' have certainly evolved rapidly over the last two decades, it has been at a slower rate than their physical supply chain counterparts.

Today, the rising volume of digital payments in global commerce demands for high speed of funds availability. But, traditionally, retail payment processing has been dominated by end-of-day batch processing on a deferred net settlement (DNS) basis.

This is changing. As smart phones and mobile payments have catalysed consumer's rising expectation for immediate payments - innovation, competition from Fintech start-ups and regulatory pressure has begun to drive the global adoption of real-time retail payment systems.

According to SWIFT, 18 countries have already implemented and 12 countries are in the progress of developing real-time payment capabilities. Accenture also predicts that immediate payments will become ubiquitous within ten years, even sooner.

And as the technology becomes cheaper and more accessible, many automatic clearing houses (ACHs) that handle retail payments processing are now moving away from the overnight batch processing toward more frequent settlement cycles.

Fast payment services have the potential to generate benefits to the whole economy; an increase in the velocity of money can naturally speed up economic growth, which brings with it important social benefits.

On a more micro level – the adoption by financial institutions, of the ISO 20022 payment message standard enables greater transparency in digital payments processing and interoperability among different systems and banks will eventually benefit from the economy of scale. Instant funds posting and payment confirmation and around the clock service availability bring high convenience to consumers. Small and medium businesses are also the key beneficiary as funds reach their bank accounts faster and goods are shipped quicker.

Of course, faster payments processing also inherently poses several risks. The first is liquidity - payment service providers need to have sufficient funds in their settlement accounts in order to support faster movement of payments in the financial network. The second is operational risk - any downtime in an ‘always on’ system would cause chaotic service disruption. The third is cyber security risk and fraud, since faster payments processing may mean insufficient time to screen transactions for fraud detection.

One-size-fits-all global implementation may present a challenge as the approach to building real-time retail payments capabilities varies from system to system, and from country to country – where banking communities have different risk profiles and implementation choices.

In addition to financial institutions, Fintech start-ups, existing technology companies, and mobile network operators are actively pursuing payments system innovations. Increased competition stimulates new business models and contributes to a wider choice of products and services, which eventually benefit end users. However, to avoid fragmentation in the market, a set of rules and technical standards should be followed by payment service providers. A common scheme would encourage interoperability among different services and harmonize how payment service providers interact with each other. While competition spurs retail payments innovation, cooperation is necessary for any innovation to be sustained.

As new technologies bring cost effective solutions to the market, the primary driver of market adoption will be the regulatory initiative. Rapid adoption can be achieved by central bank coordination and government mandate. The regulatory authorities can play a leading role to promote technological standards that ensure interoperability of different systems, and facilitate collaborations among financial institutions.

Meanwhile, the whole banking community has an opportunity to be open to new possibilities presented by rapid digital advancements. Many central banks, including European, Canada, Singapore and Japan, are experimenting with distributed ledger technology to support decentralized payments processing. In the future, it is possible to envisage the coexistence of old and new, centralized and decentralized payments infrastructure to provide a complementary and wider range of services in the retail payments space.