Background

Against the backdrop of COVID-19 and economic shocks that continue to roil markets and disrupt firms, companies have been encouraged to move online as quickly as possible. Setting up a digital presence, however, is only part of the problem of restarting the global economy. Firms that make the transition from offline to online are also struggling with getting paid in a manner that is rapid, efficient, and cost-effective.

Digital services have increasingly become an umbilical cord to the outside world, enabling people who are unable to step outside to order both goods and services online. For businesses suffering from demand shocks, it has allowed them to find and connect with existing and new business opportunities remotely. However, such transactions hinge on the availability of easy-to-use and instant payment schemes, particularly for businesses struggling due to cashflow issues. Companies, especially smaller ones, cannot wait days for payments to clear and cannot afford additional charges for faster transactions that eat into often thin profit margins.

These newly created or recently reinforced online connections between firms and with consumers are unlikely to be fully reversed even after the end of the pandemic. Failure to act in sorting out specific issues that hamper the swift resolution of payments for firms will flatten the digital promise across Asia, dampening its coming of age that has been parroted for decades, but has not been fully delivered.

The volume of non-cash payments has been growing rapidly around the world, at a rate of around 14% per year. In the Asia-Pacific region, non-cash transactions have been growing even faster – at a rate of 20% per year, and 30% in emerging Asia. New payment models are helping drive this growth as they expand access to the financial system for underbanked groups and the emerging middle class, as well as increasing innovation and consumer choice, and the ability of businesses to sell directly to consumers.

Instant – or Real Time – payments are an increasingly important feature of the payments landscape around the world and will be present in all major Asian markets by the end of 2020. They allow electronic payments to be processed and settle in real time. While much of the digital economy already operates in a 24/7, “always on” environment, the banking system does not. Governments therefore need to make changes to ensure Real Time/Instant payments work better and support the digital economy, benefitting individuals, businesses and governments.

Instant payment schemes can help policymakers meet several challenges:

i) Expand access - Around 1.8 billion people in Asia have a bank account but no credit/debit card. This number is expected to rise as more people are brought into the financial system. Instant payments therefore open up an important payment method for individuals as well as a new customer base for businesses.

ii) Cashflow management - A move away from the current system of batch settlements can help reduce late Business-to-Business (B2B) payments, increasing the speed of inter-bank transfers to help businesses get paid more quickly and improve cash conversion cycles.

1 Capgemini World Payments Report 2019
iii) **Reduction in use of cash** - Encouraging additional forms of non-cash payments can help reduce costs (particularly in cash-intensive economies), improve transaction transparency and assist governments with revenue collection and efforts to tackle fraud and the grey/black economy.

iv) **Enhanced security** - Tokenization can replace sensitive account information with alternative identifiers or “tokens,” which are used to perform the payment transaction instead of personal financial data. Tokenized payments therefore offer an additional layer of security in an instant payments environment.

### Examples of 24/7 instant payment schemes in Asia Pacific

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<thead>
<tr>
<th>Country</th>
<th>Description</th>
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<tbody>
<tr>
<td>Australia</td>
<td>New Payments Platform launched in 2018. Instant Payment Service “Osko” links phone number or e-mail address to bank account.</td>
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<tr>
<td>China</td>
<td>People’s Bank of China established the Internet Banking Payment System (IBPS) in 2010. Payments between banks are received in 20 seconds.</td>
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<tr>
<td>India</td>
<td>India’s Unified Payments Interface (UPI) was launched in 2016 enabling round the clock payments and is interoperable, allowing consumers to link their bank account to any UPI app, which may be owned by the same bank or a third party.</td>
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<tr>
<td>Singapore</td>
<td>Customers of 20 major banks can make instant interbank transfers via electronic funds transfer service FAST. Prior to FAST, an interbank transfer took up to 3 business days.</td>
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### Factors for the Development and Success of Instant Payments:

i) **Access** - Opening core payment systems to a greater number of qualified direct participants and using APIs in an open banking system.

ii) **Functionality** - Creating an inclusive architecture to support implementation of capabilities and services for all (existing and newcomer) participants and end-users.

iii) **Interoperability** - Expanding the degree of interoperability between core infrastructure and other domestic and international payment systems, but also maintaining consumer choice, competition and a level playing field.

iv) **Speed** - Developing real-time settlement systems initially for retail payments that can gain wider usage by being designed to eventually serve either business or consumer payments.

v) **Risk management** - Upgrading payment systems to enable risk-reduction processes and controls that stem from faster payments including a shift from batch to real-time processing.

vi) **Cross-border linkages** - Establishing linkages between domestic instant payment systems to allow instant cross-border payments to supplement existing (mainly regional and international) payment systems that are already providing such cross-border payment services.
Considerations for Policymakers

i) **Settlement** - It is important to build a strong settlement mechanism for instant payments. Most payment programs start with interbank settlements taking place only during working hours with just one or a few settlement times across a day. Introducing more frequent settlements as an instant payment program matures is critical. Without frequent settlement, firms and customers face increased costs and risks trying to use systems that do not match a 24/7 digital economy.

ii) **Collateral** - It is important to ensure that the right mechanism is in place so that the remitting bank (or non-bank or agent bank) holds enough collateral with a central counterparty or the central bank. On-line monitoring by the operator of the instant payment program is also key to ensure that payments do not exceed such collateral. Easy and online modes of topping up collateral should also be available.

iii) **Central counterparty and Guarantee Fund** - To ensure customer protection and finality of settlements and to enable non-bank entities to participate in such instant payment programs, the establishment of a central counterparty and a settlement guarantee fund is also recommended.

Encouraging Adoption of Instant Payment Services

- **Request to Pay (RTP)**: RTP is an emerging instant collection solution that triggers bill payments directly from bank accounts, which provides a seamless user experience and increases adoption from businesses. RTP also provides a base infrastructure for Corporates and Non-bank Fintech companies to be built on top of instant payment rails.

- **Quick Response (QR) codes**: QR codes allow contactless payments via scanning a code from a mobile phone app. The use of standardized QR code features, as driven by international payment companies - based on international EMVCo standards - across Asia, including in Thailand, India and Singapore, can improve the user experience.

- **Government payments**: the use of instant payment schemes by government agencies can also help increase take up by, for example, making COVID support, welfare, or social security payments to citizens through bank accounts.

- **E-mandates**: e-mandates, which permit businesses to collect recurring payments, are another tool which can help demonstrate the benefits of instant payments if applied to these schemes.

Recommendations

i) **Settlement mechanisms** with more frequent intraday and 24/7 settlement.

ii) A **collateral system** which allows for online monitoring and top up by program operators and real time debiting or ear-marking of funds.
iii) Establishing a central counterparty and settlement guarantee fund to ensure customer protection and program participation by non-banks.

iv) Adding services to instant payments schemes to demonstrate their effectiveness, such as the use of QR codes, Request To Pay and e-mandates and encourage government agencies to make payments through these schemes to encourage take up.

Case Study

Consider the needs of an apparel business operating in one Asian market. Traditionally such a firm may have operated in the B2B space, selling only to wholesalers and retailers, who then sell to consumers. However, the digital economy and instant payments in particular offer the company the chance to:

- Expand its customer base, by transacting with those who do not have traditional payment products such as credit or debit cards, both domestically and in export markets.
- Sell direct to consumers, with the potential to increase sales and margins.
- Improve its cashflow management by receiving payments instantly, without the need to wait several days via traditional batch settlement.
- Reduce the number of cash transactions in the business and the associated costs of storing, guarding and depositing cash.