

Latin America: Hitting the Real-Time Freeway



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Real-time payment schemes (known also as faster or instant payments) are proliferating globally as governments seek to move toward cashless societies, enable new business models, and improve convenience and control for citizens and businesses. While the speed and specific characteristics of each scheme differs, companies around the world should be making preparations, not only for real-time payments, but of equal significance, real-time collections.

The acceleration and digitization of payments is not a trend restricted to either developed or emerging economies, but a global phenomenon. By July 2018, 45 real-time payment schemes were live (source: www.instapay.today), with a further 11 in development, including key markets in Central and South America. Argentina, Costa Rica, Mexico and Nicaragua already have live schemes. For example, Mexico has 24/7 payments with a transaction time of less than 5 seconds, with an accelerated adoption path for instant payments. Real-time payments are in development in Brazil, Colombia, Dominican Republic, El Salvador, Panama and Peru, among others.



	Payment Types	Instant Payment Applications
 Consumer-to-Business (C2B)	<ul style="list-style-type: none"> • e-Commerce Payments • Physical Point-of-Sales Commerce • Large Value (e.g., Capital Purchases) • Bill Payments 	<ul style="list-style-type: none"> • e-Commerce Payments • Low-Value Subscription Payments • Alternative to Credit Card Payments which incur Additional Charges (e.g., Flights, Hotels) • Real-Time Instant Credit/Loans Repayments • Just-In-Time Payments; Emergency Bill Pay
 Business-to-Consumer (B2C)	<ul style="list-style-type: none"> • Recurring (Payroll), Ad Hoc (e.g., Reimbursements, Insurance) 	<ul style="list-style-type: none"> • Expedited Payroll - Self Employed • Customer Refunds and Rebates • Insurance Claim Payouts • Legal Settlements • Relocation Expenses
 Business-to-Business (B2B)	<ul style="list-style-type: none"> • Accounts Receivable/Payables 	<ul style="list-style-type: none"> • Supplier Payments Including Time Sensitive Payments (Early Payment Discounts) • Government Payments Including Tax Payments

Figure 1. Example use cases for real-time payments

Drivers of instant payments

Government motivation for real-time payments differ depending on national priorities. In some cases, increasing financial inclusion and reducing cost and risk in the financial system by promoting the cashless society is the priority. This has been the case in Kenya where the use of mobile wallets through M-PESA already accounts for more than 80 percent of retail payments. The strongest driver toward real-time payments, however, is typically to both reflect and drive growth in e-commerce and emerging digital business models. Efficient, fast and traceable payments are essential to sustainable e-commerce growth, particularly in countries where financial inclusion is currently low and/or the use of cards is not prevalent. In China, the world's

largest e-commerce market, Instant Payments (IBPS) share of transactions has grown 440% since adoption in 2010 - from 1% to 56% of all transactions.

These same drivers apply in Latin America; indeed, in many respects, the motivation toward real-time payments is stronger than in other regions. The e-commerce market in Latin America is the fastest growing in the world, with a projected compound annual growth rate (CAGR) of 19 percent per year between 2017 and 2021 (source: WorldPay). Colombia and Argentina are the No. 1 and No. 3 fastest growing countries globally in e-commerce terms, with annual rises of 31 and 24 percent respectively.

Over time, real-time payments and collections, both domestic and cross-border, are likely to be a catalyst for significant change and acceleration in treasury processes and decision-making.

Governments in the region are responding accordingly. In Argentina, for example, the government has mandated real-time credits and request to pay (RTP) for all banks to reduce costs and promote a cashless society. Transaction clearing takes place 24/7 with settlement within 5 seconds. In Colombia, the use of electronic channels grew by around 90 percent between 2014 and 2017, illustrating the rapid digitization of financial processes. The Central Bank has commissioned an instant payment scheme to be launched in late 2018, following the introduction of shorter, more efficient ACH settlement earlier this year. Conversely, countries that are lagging in their instant payment schemes, or have yet to introduce them, face difficulties in accommodating new commercial models and meeting consumer and business demand for faster, convenient and secure payments.

Real time in real life

Instant payments differ from more familiar ACH and wire transfers in a variety of ways. Clearing takes place 24/7/365 with immediate funds availability. Payment is irrevocable and can be initiated through multiple digital channels. Although payment formats currently vary, many schemes are converging in the use of ISO formats. Real-time payments are currently targeted toward lower value payments, with the value of individual transactions often capped, although this cap is gradually being raised, such as in the Eurozone (SCTInstii) and UK. Both “push” payments (e.g., credit transfers) and “pull” payments (e.g., request to pay (RTP), which is a form of direct debit without a mandate) are supported under many real-time payment schemes, including Argentina’s and Mexico’s.

The use cases for real-time payments vary across industry and business models (e.g., business-to-consumer; consumer-to-business; business-to-business - see Figure 1) but the ability to make time-sensitive or emergency payments, and/or create an enhanced experience for customers, suppliers and employees offers a powerful, competitive value proposition for some companies. The benefits and potential use cases for outgoing real-time payments will also further extend as the cap on individual transaction limits is raised.

For many companies, the ability to collect in real time is at least as compelling as making payments in real time, and often more so. Credit and collections metrics, including days sales outstanding (DSO) and cash flow predictability, are enhanced as a result of faster payment, and fewer delays in the availability of funds due to cutoff times or check float. The use of RTP also provides a convenient way to improve predictability of payment. The working capital benefits are considerable, including the ability to finance the business more precisely and reduce working capital “buffers.”

Planning real-time strategies

While the benefits and implications of real-time payments and collections will differ across organizations, all treasurers and finance managers should be making plans – even if a company does not plan to use real-time payments, they need to be prepared for 24/7 credits on their bank accounts. Furthermore, it is not only domestic payment schemes that are becoming real-time, cross-border payments are also accelerating. SWIFT’s global payment innovation (gpi), which promotes same-day, traceable cross-border payments, has now been adopted by over 200 banks globally that together represent over 80 percent of global SWIFT traffic. In June 2018, the SWIFT community committed to universal adoption of SWIFT gpi by 2020.

Over time, real-time payments and collections, both domestic and cross-border, are likely to be a catalyst for significant change and acceleration in treasury processes and decision-making. Visibility and control over cash and liquidity is increasing, with more dynamic, “just in time” cash and liquidity management and more sophisticated predictive modelling of risk, with significant supply chain implications. Most important of all, by embracing real-time payments, treasurers and finance managers can support the business in driving new business models that boost customer and supplier engagement and improve competitive advantage. ■

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- connecting domestic instant payment schemes into a coherent payables and receivables solution for multinational clients through its global proposition and single window access
- enriching its instant payments offering with value-added services such as FX, virtual accounts and intelligent routing
- providing active customer support and education in the rollout of real-time payment schemes globally

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