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Review of the EPC proposal for the design of an instant SEPA Credit Transfer scheme

Introduction

The purpose of this note is to reflect on the various discussions that took place within the High-Level Group (HLG) on instant payments that the ERPB created in June 2015 to provide guidance as needed to the EPC in the process of defining the scheme design proposal¹. A number of issues were addressed within the HLG, including the EU legislation on anti-money laundering (AML)/counter terrorist financing (CTF), other legal issues, options for adherence by PSPs, notifications to end users, end-to-end processing time of an instant payment transaction, risk mitigation, access of non-bank PSPs and initiation and routing functionalities. The note briefly summarises the outcome of the HLG discussions on those issues.

To recall, SCT^{inst} will be a stand-alone euro credit transfer scheme, based on the technical features of the SCT scheme. It would be open to any Payment Service Provider (PSP) in the European Union for voluntary adherence.

1. AML/CTF compliance

One issue raised in the discussions within the HLG is how far AML/CTF compliance would set obstacles in the processing of instant payments within the EU, in particular in a cross-border context. A non-paper was prepared by the European Commission for the HLG, according to which there would be no regulatory obstacles from the EU relevant legislation. The EPC is expected to clarify whether there may be any other (e.g. technical) obstacles in this respect. This clarification would be provided in the context of the scheme development.

2. Other legal issues

In preparing its design proposal, the EPC conducted an internal legal review on other relevant legal aspects, such as the definition of business day and value dating as per the reviewed Payment Services Directive (PSD2)², and the compatibility with the SEPA Regulation³. The EPC will liaise with the European Commission to conclude on these topics.

¹ The HLG held two meetings (on 17 July and 2 October) and a teleconference (on 30 October).

² The review of Directive 2007/64/EC (so –called PSD2) is in the final phases of approval.

³ Regulation (EU) No 260/2012.

3. Options for adherence by PSPs to the SCT^{inst} scheme

The EPC scheme design proposal envisages the option for PSPs to adhere as *payee’s PSP only*. This would be especially aimed at maximising the take-up of the scheme from the wider PSP community, considering its heterogeneity and the investment that may be needed to offer instant payments.

Within the HLG, it is noted, however, that this may risk delaying the concrete delivery of instant payments to end users at a pan-European level in case most PSPs opted for such limited adherence. On the other hand, it may be argued that competitive pressure and commitment within the supply side, as well as end users’ demand, would provide strong incentives for PSPs to adhere to the scheme as *both* payee’s and payer’s PSP.

Considering that the scheme itself would be optional and that acting as payee’s PSP may in any case require investment, it seems preferable that those PSPs that decide to adhere would have to do so as both payee’s and payer’s PSP.

The above should be taken into consideration by the EPC when devising the final version of the scheme.

4. Notifications to end users

The EPC scheme design proposal includes, as mandatory features, both positive and negative notifications between PSPs and negative notification to the payer. Positive notification to the payer, and ideally to the payee⁴, would be developed as optional features at the level of end-user solutions. At the same time one could argue that embedding the positive notification to the payer in the scheme, as a mandatory feature, would strengthen the case for PSPs to offer it in line with the agreed definition of instant payments⁵.

The following main arguments have emerged against and in favour of immediate positive notifications to end users (payer and payee) as mandatory features of SCT^{inst}:

<i>Argument</i>	<i>Against</i>	<i>In favour</i>
Availability of account balance information	Payers and payees would always have the chance to proactively check their balances, to which they would have access in real time at any moment. In fact, information would be needed but not necessarily instantaneously.	An instant payment encompasses an element of time criticality – otherwise SCT would be used. Thus to ensure that the payment has been executed in such time critical fashion, the customer may wish to have this information. If payers and payees would always need to check their balances to verify execution, de facto the experience of making an instant payment could be impaired by the cumbersome process.

⁴ Negative notification to the payee is generally seen as unnecessary.

⁵ As per the statement following the ERPB meeting in December 2014 “*instant payments are defined as electronic retail payment solutions available 24/7/365 and resulting in the immediate or close-to-immediate interbank clearing of the transaction and crediting of the payee’s account with confirmation to the payer (within seconds of payment initiation). This is irrespective of the underlying payment instrument used (credit transfer, direct debit or payment card) and of the underlying arrangements for clearing (whether bilateral interbank clearing or clearing via infrastructures) and settlement (e.g. with guarantees or in real time) that make this possible.*”

Confirmation to the payee is instead not required by the definition. Still, it would ideally be provided by PSPs.

Notification channels	Not all initiation channels would lend themselves to support notifications, or anyway to support them in a standardised fashion.	Appropriate and diverse channels (typically the online and the mobile) could be offered (if available) to support notifications, nor would such channels need to be the same as the initiation channel used or to support notifications in a standardised way. To the contrary, the choice between the channels available would be left to the end user in order to better meet her needs.
Impact of the entry of TPPs into this market	The entry of Third Party Providers (TPPs) into this market – as per the PSD2 – may need to be considered as well, when designing notifications (in particular, whether the notification would be sent by the PSP to the end user directly or via the TPP). In this respect, the definition of notifications at the level of end-user solutions would not prejudice the emergence of diverse models of direct or indirect interaction between end users and PSPs.	The entry of TPPs into this market would not affect the substance of the principle that notifications should be provided, since the scheme is understood to be neutral as regards the initiation channel.
Sources of information outside the context of the payment	There would continue to be interactions between the payer and the payee outside the context of the payment alone, e.g. in the wider process of an e-commerce purchase, and such interactions would provide opportunity to make sure that the payment was correctly executed.	The interaction between the payer and the payee outside the context of the payment is out of the scope of the work on the scheme. Such interaction should not be needed to provide certainty of the payment itself, otherwise the experience of immediacy could be compromised.
Notification messaging	As yet there is no standardised (e.g. ISO 20022) messaging that could be used for notifications, nor is it expected to be soon developed, and the information to be carried by the notification messages would vary depending on the use cases (e.g. in the Person-to-Person compared to the Person-to-Business or Business-to-Business context).	There would not be a need for standardised notification messaging. Instead, the messaging could vary depending on the information to be carried in different use cases (e.g. in the P2P compared to the P2B or B2B context).
Implications on delivery and take-up of instant payments	Including positive notifications as mandatory features of the scheme may delay the delivery of the scheme itself.	In general, positive notifications would encourage use of instant payments by boosting confidence and at least equalling the service levels of other products which offer rich information (e.g. to corporate customers). Moreover, both negative and positive notifications will be exchanged

		between PSP, and negative notification will be provided to the payer. Especially in light of the latter, it could be expected that also positive notification could be provided to the payer, and ideally to the payee.
Implications on costs	Including positive notifications as mandatory features of the scheme may increase costs overall, both in terms of investment required of the supply side of the industry and, as a result, in terms of pricing structure for end users.	The investment borne by the supply side to offer positive notifications should be weighed against the revenue opportunities deriving from the take-up of instant payments (amongst others through customer retention, cross-selling and value added services). Whether notifications may affect the pricing structure of end-user solutions is outside of the scope of the scheme.
End user preferences	Some end users may not wish to receive notifications.	There should always be the possibility for the end user to ask her PSP not send her notifications.

In light of the above, *two approaches* could be envisaged as regards notifications to end users, as variants of making them mandatory or optional:

- a. Mandatory notification within the scheme rules with possibility for the PSP to opt out if so agreed with the customer.
- b. Optional notification within the scheme rules with possibility for the PSP to opt in.

Although similar in many respects, the two approaches may have different consequences:

- a. Would leave the choice to the customer, as the PSP would be required to accommodate the functionality upon adhering to scheme.
- b. May not provide the choice to the customer of a PSP, as the PSP may not necessarily accommodate the functionality despite adhering to the scheme.

The EPC scheme design proposal supports the aforementioned approach b), i.e. optional positive notification with possibility for the PSP to opt in. The demand side broadly supported notifications to end users as mandatory features of SCT^{inst}, at least as per the alternative approach a), i.e. mandatory positive notification with possibility for the PSP to opt out if so agreed with the customer. Such an approach would seem a balanced compromise between the needs of the demand and the supply side, promoting customer choice while allowing for flexibility.

5. End-to-end processing time of an instant payment transaction

This parameter of the scheme spans from the moment the payer initiates the payment (whether directly or indirectly via a TPP) to the moment the payment is executed (including any notifications to end users).

The end-to-end processing time can be broken down into components. One component is allocated to the instant clearing of the transaction between the PSPs concerned⁶, thus showing interdependency between the scheme and the clearing layers.

The industry benchmark is known to average around 5 seconds end-to-end. It is however understood that the EPC is further assessing the number of seconds that would be needed to execute an instant payment, also taking into account the need for pan-European reachability and the underlying arrangements for clearing and settlement.

6. Risk mitigation

In case of inter-PSP deferred settlement, the payee's PSP incurs credit risk since it has to make the amount of an instant payment available to the payee before having received the funds from the payer's PSP. This risk needs to be mitigated through measures put in place at the clearing layer (e.g. pre-funding or collateralisation), showing a possible interdependency between the scheme and the clearing layers.

Maximum amount limits per instant payment transaction will be set at the scheme level, which would contain the credit risk incurred by the payee's PSP. The EPC is assessing to what extent further provisions on risk mitigation could or should be inserted in the scheme.

7. Access of non-bank PSPs⁷

The EPC scheme will be open for any PSP to adhere. In addition to access to the scheme, access to clearing and settlement systems will also be of relevance. This shows further interdependency between layers, more precisely between the scheme layer and the underlying clearing and settlement layers of instant payments. However, access to clearing and settlement systems is outside of the scope of the work on the scheme.

8. User-friendly initiation and routing⁸ functionalities

The availability of such functionalities may contribute to the concrete take-up of instant payments: ease of use is anticipated to boost acceptance of new payment solutions and respond to end users' expectations. This shows synergy between the work on the SCT^{inst} scheme and that on Person-to-Person mobile payment solutions⁹ which is progressing in parallel.

9. Interdependencies and synergies between layers of instant payments

The above sections show interdependencies and synergies between layers of instant payments. Without pretending to constitute an exhaustive list, these include the processing time, credit risk mitigation measures,

⁶ In this context clearing is intended mainly as exchange of payment information

⁷ E-money institutions and payment institutions.

⁸ E.g. through mobile phone numbers or email addresses linked to IBANs.

⁹ As per the statement following the ERPB meeting in June 2015 *"the members of the ERPB agreed to endorse the vision of allowing any person to initiate a pan-European P2P mobile payment safely and securely, using a simple method with information the counterparty is prepared to share in order to make a payment. In particular, payment service providers (PSPs) offering P2P mobile payment services should make use of existing infrastructure as far as possible (i.e. SEPA payments and IBANs). Moreover, a harmonised process should be created to allow P2P mobile payment data (e.g. mobile phone numbers or email addresses and IBANs) to be exchanged between local solutions across borders."*

The developments in this field are of relevance to the debate on instant payments: arguably, in fact, P2P mobile payments represent a typical use case for instant payments.

access of non-bank PSPs to the instant payments business in a broad sense, availability of user-friendly initiation and routing functionalities.

It is understood that the focus of the work within the ERPB and the EPC remains on the scheme layer, with a neutral approach to the products actually offered to end users as well as to the clearing and settlement layers.

10. Key outstanding elements of the SCT^{inst} scheme

It is noted that the EPC scheme design proposal does not yet define values for essential elements of the scheme, such as the maximum processing time of an instant payment and the relevant amount limits.

Provided that the ERPB would endorse the general features of scheme as per the presented design proposal, the EPC is expected to define such values in the early stages of its further work on the scheme.

Considering the various issues still outstanding and the useful role that the HLG has played so far, it is suggested that the HLG could continue its support to the EPC as needed in the next stage of its work.

Conclusions

In light of the above, the ERPB is invited to welcome the EPC scheme design proposal and acknowledge the need to address as soon as possible outstanding issues related to crucial aspects of the scheme. In particular, the ERPB members are invited to :

- endorse the general scheme design proposal presented by the EPC as a basis for the EPC to prepare an SCT^{inst} Rulebook by November 2016;
- invite the EPC to address the outstanding issues related the crucial aspects of the scheme (e.g. parameter such as the processing time and the amount limits) by early 2016;
- agree that the HLG continue providing guidance as needed to support the EPC in the next stage of its work on the scheme until November 2016.