

EU INTRODUCES NEW REGULATION ON INSTANT PAYMENTS: TIME FOR BANKS TO UP THEIR GAME

In October 2022, The European Commission published a new legislative proposal, with the objective to boost adoption of euro instant payments across the SEPA area and make them more easily accessible to citizens and businesses alike.

However, are banks and payment service providers ready for this evolution in payments?

Instant payments, allowing individuals to transfer money at any time of any day within ten seconds, hold great promise and are intended to become the 'new normal' when transferring funds. Yet almost five years after the publication of the SEPA Instant Credit Transfer (SCT Inst) scheme by the European Payment Council (EPC), the uptake is deemed too low.

By Q4 2022, euro instant payments accounted for just 13 percent of all SEPA credit transfers¹ impeded by expensive pricing and the slow and disparate rollout of the service by financial institutions and payment service providers (PSPs) across Europe. According to the latest EPC data², in November 2022 there were 2313 PSPs onboarded on the scheme, representing over 60 percent of European PSPs and more than 70 percent of PSPs in the euro area. In some countries such as Germany and Austria, adherence is as high as 90 percent, while in France, Belgium and Portugal this rate is still much lower.

To elevate the use of instant payments, the European Commission intends to put in place the following four key measures.

1. Mandatory provision of instant credit transfers in euro

The overall reach of the SCT Inst scheme across the Single European Payments Area is not high enough. According to the Commission's factsheet on the proposal³, only one in three payment service providers offers euro instant payment. The regulation will require all payment service providers that provide credit transfers in euro to offer their customers the possibility of receiving and sending euro instant payments as well. Moreover, if the PSP's user interface allows for bulk file transmission of credit transfers, it must offer the same service for instant payments.

Payment institutions⁴ and e-money institutions⁵, having a more restricted access to payment systems, will be exempt from this

requirement for the time being but are free to propose instant payments to their customers.

2. Charges for instant euro payments to be no higher than for standard payments

Charges applied for sending or receiving euro instant payments should be equal to (or lower than) the PSP's charges for standard SEPA credit transfers. This requirement will apply to all PSPs offering euro instant payments. The current charges applied to instant payment are frequently considered as dissuasive by end-users, and these extra costs are one of the contributing factors to the slow uptake of this payment method in certain countries.

1. Source: [EPC website - SCT Inst scheme – where are we now and where are we heading? | European Payments Council](#)

2. [SCT Inst scheme – where are we now and where are we heading? | European Payments Council](#)

3. [Factsheet: Instant Payment \(europa.eu\)](#)

4. As defined in article 4 (4) PSD2

5. As defined in point (1) of Article 2 of Directive 2009/110/EC (Electronic Money Regulation)

3. Mandatory check that the payee's name and account identifier match

To prevent fraud and increase the overall trust in instant payments, all payment service providers of euro instant payments will be obliged to propose a service to check that the payee's name and International Bank Account Number (IBAN) match and alert the payer of any detected discrepancy before the payment order is authorized. Payers can then opt to either cancel their payment order or force its execution despite the discrepancy, and PSPs are allowed to charge for this service.

4. Harmonized sanctions screening

The aim of this requirement is to apply a harmonized procedure for sanctions screening, based on daily checks against EU sanctions. With current processes being so disparate amongst banks and leading to inefficiencies and duplication, this is also a much-needed measure to remove friction and increase the success rate of instant payments (the current rejection rate due to inefficient screening is as high as 9.4 percent, with 99.8 percent of these being false positives⁶).

IMPACT ON BANKS AND PAYMENT SERVICE PROVIDERS

Overall, the October 2022 legislative proposal has been positively welcomed by the European banking community, containing as it does promising incentives to increase harmonization and adoption of euro instant payments within the SEPA area. The Commission has proposed a phased timeline for the implementation of the requirements, but still intends to implement these measures rather rapidly.

Failure to comply will result in penalties applied by each member state.

Challenging timelines

The regulation is expected to come into force in the second half of 2023, and compliance with the first requirements will be mandatory within six months.

EU instant payment proposal requirements	PSPs in euro Member States	PSPs in non-euro Member States
Provision of incoming SCT Inst	6 months	30 months
Provision of outgoing SCT Inst	12 month	36 months
Standardization of charges	6 months	30 months
Pre-validation service	12 months	36 months
Harmonized sanctions screening	6 months	6 months

This proposed timeline is ambitious, however, and will be challenging for many financial institutions. While many major international banks have already deployed euro instant payments in several markets, not all of them have completed their entire roadmap. If the regulation comes into force before the end of 2023, banks and PSPs will need to be ready to receive and send instant payments by the end of 2024 in all euro markets where they are present. Even when using a technologically advanced payment engine, deploying this new method of payment in one market can in most cases still entail several months of development and preparation.

6. [Factsheet: Instant Payment \(europa.eu\)](https://european-council.europa.eu/media/en/press-communications/infographic/infographic_instant_payment_en.pdf)

Low return on investment

Many institutions initially offered SCT Inst as unitary payments encoded via their e-banking solution and are yet to propose bulk file transmission and processing of instant payments. To facilitate SCT Inst initiation through bulk files, banks need to assess their end-to-end architecture to determine real-time compatibility and then adapt all batch-based processes to real-time in a cost-efficient way.

Payment service providers will need to work specifically on how they handle incoming and outgoing instant payment bulks and this will require adapting their operating models to ensure system resilience to support 24/7 payment operations and updates. The fact that they won't be allowed to make additional charges for instant payments initiated as bulk will certainly be an issue in terms of return on investment.

Lack of standardization in national payment schemes and databases

The obligation to check that the beneficiary's name matches the IBAN account holder could also prove difficult to fulfil. Firstly,

Confirmation of Payee schemes are still in nascent stages in several countries and not yet widely available. Secondly, these schemes are limited to domestic payments within the country and thus do not yet function for cross-border payments.

Several initiatives have been launched by various players in the market – for instance, fintechs acting as aggregators of domestic schemes and databases, and SWIFT's pre-validation services which checks the validity of the beneficiary account via an application programming interface (API) call by comparing it against their transaction data library. For these initiatives to have a true global reach and become successful, a collaborative approach is needed to foster interoperability between schemes and databases. The collaboration between the domestic schemes in France (SEPAMail.eu) and the Netherlands (SurePay)⁷ is a step in the right direction, but there is still a lot to be done to have a truly standardized pan-European scheme.

The Commission's other key objective is to drive further innovation and competition within the EU, so the enhancement of fraud prevention services is a perfect illustration of the opportunities that can emerge from these new regulatory requirements.



7. [First cross-border IBAN reliability solution launched for payments between France and the Netherlands - Sepamail.eu](https://www.sepamail.eu)

CONCLUSION

The European Commission's ambition is clear – euro instant payments must become universally available and affordable, and accordingly there is no more time to waste. To face the challenges ahead, banks and payment service providers must up their game and assess their end-to-end architecture to evaluate real-time compatibility, assess the impact of year-round availability 24/7 for system updates, assess how they will propose this method across all payment initiation channels, and review fraud detection and screening systems.

Meeting the Commission's timelines will require reshaping their budgets and priorities for the next two years and allocating sufficient resources, potentially involving the support of external experts, to perform a thorough assessment of existing payment processes and systems, to develop a simple, cost-efficient implementation strategy in all impacted geographies and meet all the regulatory requirements within tight timelines.

HOW CAPCO CAN HELP

Capco provides comprehensive advisory expertise across the end-to-end payment delivery cycle, from customer journey, card issuance and acceptance solutions to payments architecture and payments modernization.

We can help your organization develop the right approach for moving towards euro instant payments, taking into account longer term impacts, operational considerations and the reduction of associated risks.

Contact us to discuss the potential consequences of the recent EU proposal for your business and the best strategic and tactical approaches to take.

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