

R2P

The missing piece of the puzzle

A white paper

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Concept and text
ABE CLEARING S.A.S. à capital variable
(EBA CLEARING)
40 rue de Courcelles
F-75008 Paris

Graphic Design
formfellows
Kommunikations-Design
Frankfurt am Main

Contact
clearing@ebaclearing.eu

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The missing piece of the puzzle

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The state of play of instant payments

Successful PSP adoption

The European Payments Council launched the SEPA Credit Transfer Instant (SCT Inst) Scheme in November 2017. Several institutions went live from the start, many others have followed in the meantime. Nowhere else in the world was a real-time payment ecosystem built and delivered in such a short time frame and with such a wide adoption. It is also the first eco-system in which cross-border (single currency) real-time payments were processed from the first day of the go-live.

Roughly two-thirds of the payment service providers (PSPs) that today support the SEPA Credit Transfer (SCT) payment instrument are reachable

via SCT Inst at this stage. The SEPA Migration End-date Regulation¹ specifies that a new entrant payment scheme with potential to develop into a fully-fledged pan-European payment scheme and to contribute to improving competition or promoting innovation can be given up to three years from its launch before it must reach a majority of PSPs within a majority of Member States, which constitutes a majority of PSPs within the Union. Given the successful evolution of PSP adherence so far and the promising outlook, it is expected that the SCT Inst Scheme will fully meet this requirement by the 2020 deadline.

Different roll-out approaches

PSPs onboarding the SCT Inst Scheme have been following different approaches on how to use the instrument and offer underlying payment products to their customers. Some PSPs first concentrate on the infrastructure aspects and start off by being reachable for receiving instant payments only. Other

institutions develop new products for their customers to allow them to specifically choose to initiate an instant credit transfer instead of a regular credit transfer. And in some other cases, PSPs immediately begin to migrate some, or even as much as possible, of their existing credit transfers to instant payments.

Promising customer uptake

According to PSP feedback, customer uptake has been positive so far. In many cases, early customer usage has been exceeding the expected demand, often picking up across all customer segments and for both domestic and cross-border transactions even before the launch of any specific marketing or product roll-out activities. In communities where

mass roll-out has started, PSPs have registered that customers are beginning to adjust their service level expectations to the speed and constant availability of real-time payments, making instant payments an integral part of their payment repertoire and of their digital customer experience.

¹ See Art 4(1)(b) to (4) of Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009.

Uptake of EBA CLEARING's RT1 System since SCT Inst launch

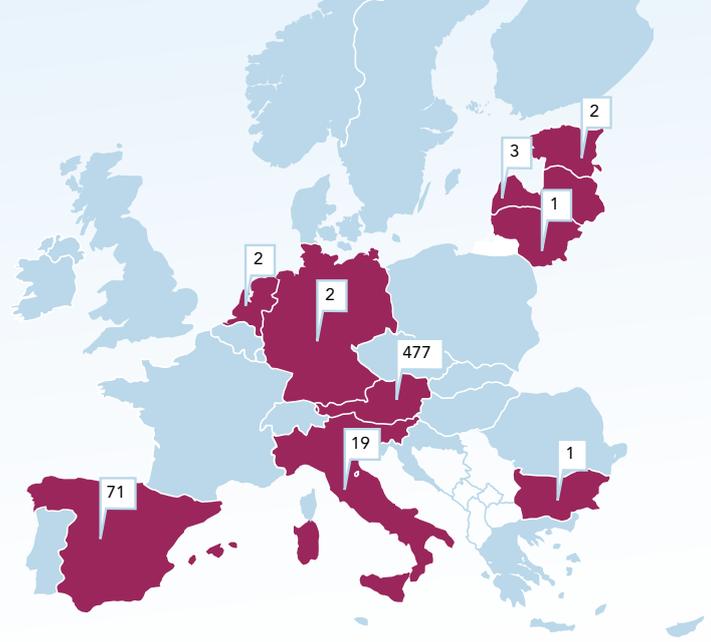
DECEMBER 2017

- 10 countries in total
- 20 active participants
- Close to 100% reach among SCT Inst Scheme-adhering PSPs

representing

14%

of the SCT traffic processed by EBA CLEARING



DECEMBER 2018

- 12 countries in total
- 34 active participants
- Close to 100% reach among SCT Inst Scheme-adhering PSPs

representing

50%

of the SCT traffic processed by EBA CLEARING



SEPTEMBER 2019

- 19 countries in total
- 55 active participants
- Close to 100% reach among SCT Inst Scheme-adhering PSPs

representing

74%

of the SCT traffic processed by EBA CLEARING



2

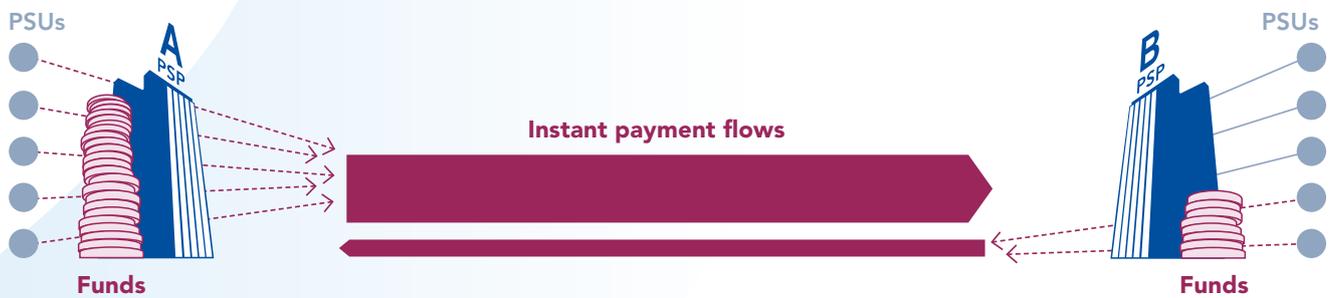
Instant payment challenges

Impact on liquidity needs during initial years

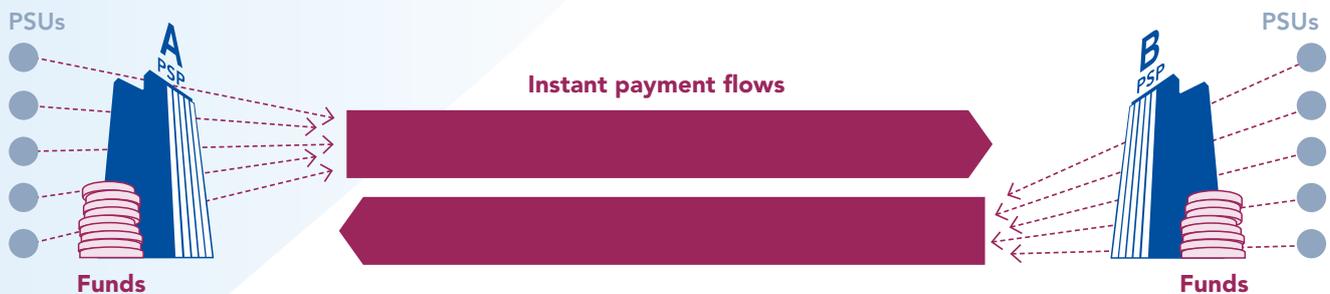
The different roll-out approaches followed by PSPs have an impact on their liquidity needs, since reciprocity, and thus liquidity recycling, will be limited if institutions switch specific flows to instant payments at different times. The lack of historical data of processing patterns and related liquidity needs makes it even harder to effectively forecast and manage these needs. At the same time, PSPs cannot afford that transactions are rejected because of insufficient liquidity.

To manage the above-mentioned uncertainties, each institution will fund a multiple of the value it expects to send during the period for which it is funding its account. This is especially the case for periods when TARGET2 is closed, since it is not possible to top up funds during this period. Once the ecosystem has stabilised, most institutions will have established sufficient reciprocity in terms of sending and receiving instant payments.

LITTLE RECIPROCITY – LIMITED LIQUIDITY RECYCLING



MAXIMAL RECIPROCITY – OPTIMAL LIQUIDITY RECYCLING



Need to generate economies of scale

Because of the considerable cost involved in operating internal and inter-PSP payment systems 24/7 and in setting aside liquidity for the processing of instant payments, PSPs have a strong interest in leveraging these systems and maximising liquidity usage. SCT Inst payments lend themselves to a wide variety of use cases and services thanks to the immediate processing, finality and availability of the payment to the payee at any time of day. Payment solutions built on top can be more efficient and entail less risk for the parties involved: not only the payee will receive funds faster but also the payee's PSP.

Therefore, the industry has a clear interest in developing new payment solutions leveraging instant payments, rather than just converting some of the existing credit transfers to instant credit transfers. The goal is to optimally exploit economies of scale by feeding a high number of (low value) transactions into the channels and recycle the liquidity that has been put in place for instant payments.

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Why request to pay is the missing piece of the puzzle

What request to pay is

Many payments professionals consider request to pay to be the missing link between the instant payment clearing & settlement infrastructure and innovative customer solutions. It is seen as a key step towards unlocking the enormous potential that instant payments hold for consumers and businesses alike. Request to pay is a broad term covering many scenarios where a payee takes the initiative to request a specific payment from the payer. Its unique selling proposition is that it can integrate many of the data exchanges between payee and payer and that it adds important context to a payment by:

- ensuring that the payer receives verified payee data and, usually, data related to the underlying business transaction before initiating a payment
- providing the payee with the possibility to add data that is relevant for its receivables processing and, possibly, a confirmation that a payment order has been issued
- allowing PSPs to identify and address inherent risks along the value chain

What benefits request to pay holds

The additional context provided by a request to pay helps to improve transparency and controls around payment execution and enables smoother end-to-end processing and reconciliation. By standardising and automating data exchange, request to pay also increases convenience for all parties.

These tangible benefits in terms of certainty, transparency and convenience make request to pay a highly attractive proposition for both corporate and retail customers. It is also very versatile, since it has

the potential to improve service levels in many different contexts like P2P, B2C and even B2B. Because of these aspects, a pan-European request to pay solution will be an enabler to realise the full potential of instant payments and real-time messaging capabilities in Europe and a door opener for reaping advantages of other industry developments, such as open banking: it is the 'missing piece of the puzzle' for the development of a number of rich end-user products and services.

Is it the right time to act?

Request to pay is not a new concept. A wide range of request to pay solutions and services are currently provided to customers both by individual PSPs and at community level. However, the existing services and solutions are often limited to a specific use case – such as invoicing, P2P or e-Commerce transactions. What is more, some have a specific community focus only.

By putting in place a pan-European approach to request to pay, market players can leverage the existing SEPA schemes and infrastructure systems, and their related investments, to create innovative and future-proof payment products and services for their customers for a wide use throughout Europe. The implementation of a pan-European request to pay approach should support the harmonisation

efforts led by the European Payments Council through its scheme-related work and ensure both interoperability and minimal service levels for national and local request to pay solutions. The rapidly growing adoption of instant payments across SEPA shows that the majority of PSPs now have the necessary elements at their disposal for joining a Europe-wide request to pay approach, including real-time messaging capabilities, 24/7 operations and 24/7 liquidity monitoring and management.

These prerequisites provide the ideal foundation for PSPs to put request to pay into practice at a pan-European level. And the Europe-wide availability of request to pay, in turn, will support the uptake of instant payments as it becomes a crucial component of many end-user solutions.

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Why a four-corner model is the key to success

The main challenge at a pan-European level is to create a single request to pay solution catering to all possible scenarios that might benefit from request to pay services and engaging all payers and payees with their different market needs. Following an approach that builds on the SEPA schemes' four-corner model success helps to overcome this challenge: this model enables the PSP of the payer and the PSP of the payee to each develop their own end-user offerings to meet the requirements of their respective customers.

This open and transparent approach fosters a healthy competition in the PSP-to-customer space and offers the necessary flexibility to tackle different use cases, including POI, e-Invoicing Presentment and Payment, and e-Commerce redirect models. At the same time, in a four-corner model, both the

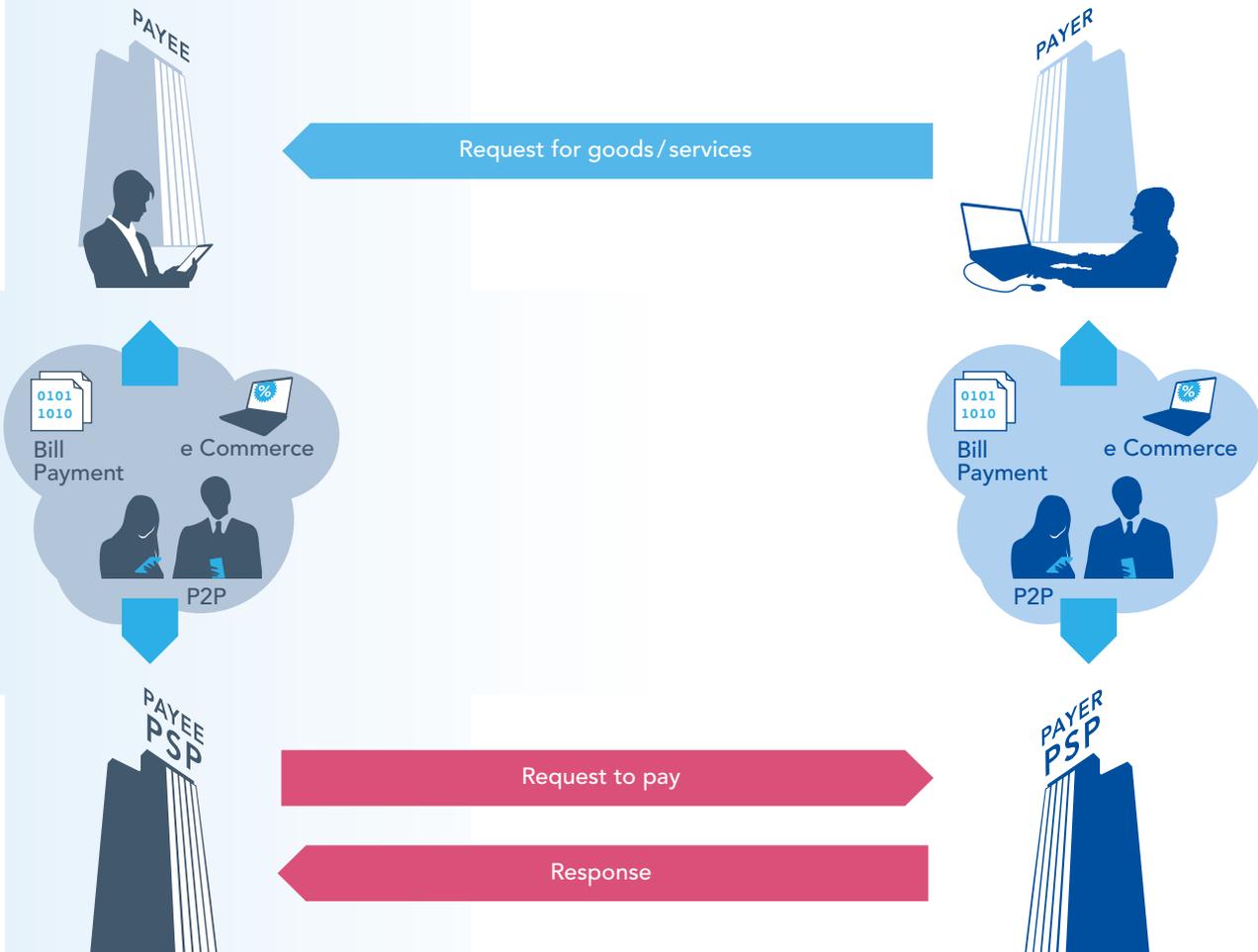
payee and the payer can be properly authenticated by their respective PSP, without there being a need for a central database storing information for authentication or any other purposes.

Thus, the four-corner model brings a wide range of advantages, from leveraging existing infrastructure and PSP-customer relationships to simplifying interactions through standards and to ensuring the necessary resilience for relevant processes.

In combination with a messaging infrastructure layer, a four-corner model approach could provide a standardised framework supporting interoperability between existing request to pay solutions and providing the basis for the development of new pan-European request to pay services.

PAN-EUROPEAN REQUEST TO PAY APPROACH

Standardised interaction for PSPs and maximum flexibility for end-user payment solutions



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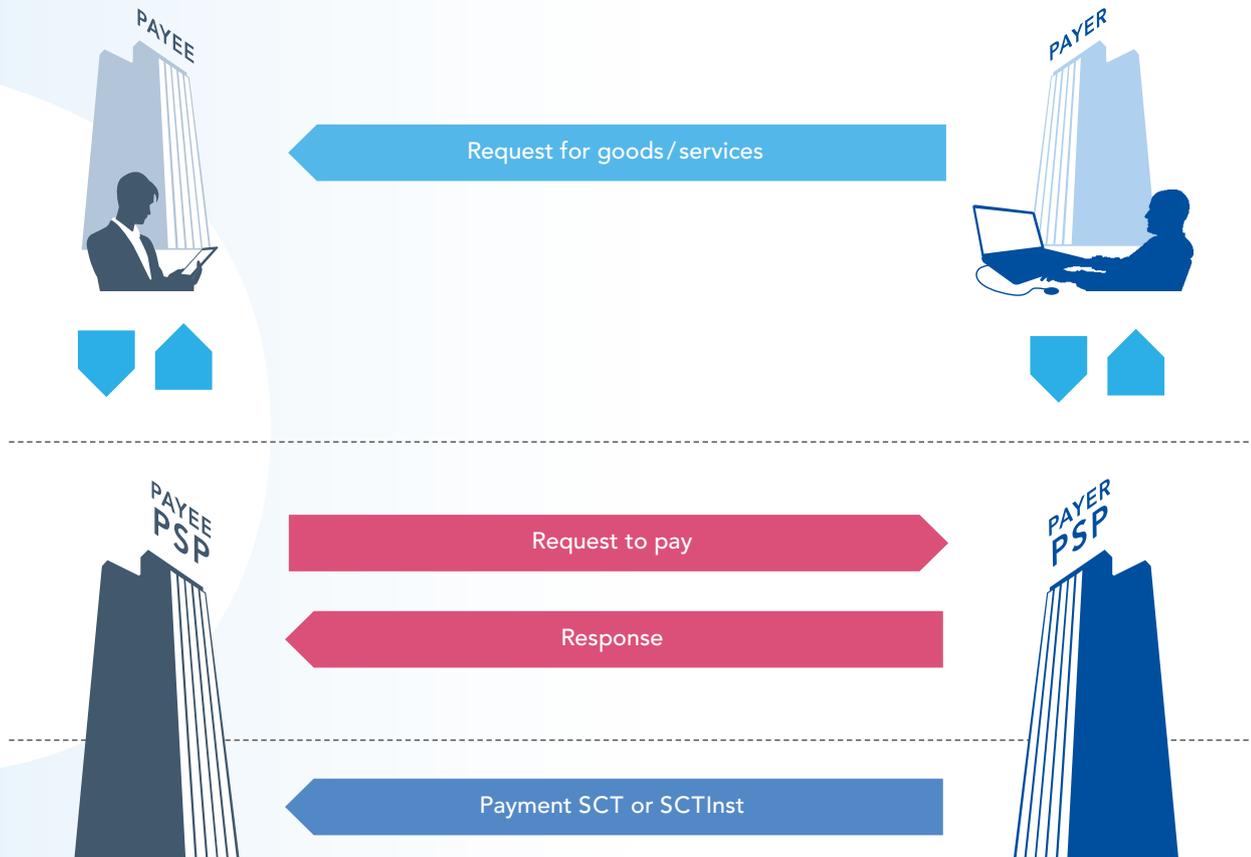
How request to pay can meet pan-European needs

To strike the balance between pan-European harmonisation and maximum flexibility that any successful pan-European approach has to achieve, the real-time messaging layer for request to pay needs to provide the following:

- a messaging framework to exchange request to pay and related messages in the inter-PSP space
- a set-up as a pan-European solution serving PSPs across SEPA
- the possibility to allow both real-time and deferred responses by the payer to the payee's request to pay
- separation from any end-user solutions and supporting different solutions and use cases to allow flexibility and innovation
- separation from the payment and allowing payments in any (SCT or SCT Inst) payment system to ensure widest adoption
- the possibility to leverage existing components/ set-up for real-time messaging to ensure minimal time to market and optimal performance

SCOPE OF A PAN-EUROPEAN REQUEST TO PAY MESSAGING LAYER

Separated from payment and services layers



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EBA CLEARING's mandate for request to pay

Request to pay blueprint delivery

In November 2018, EBA CLEARING at the request of its users launched a request to pay (R2P) initiative, involving the set-up of an R2P Task force with representatives from user institutions across Europe. Together with the task force, EBA CLEARING

developed a blueprint for a pan-European request to pay infrastructure solution, which was shared for consultation with the wider EBA CLEARING user community.

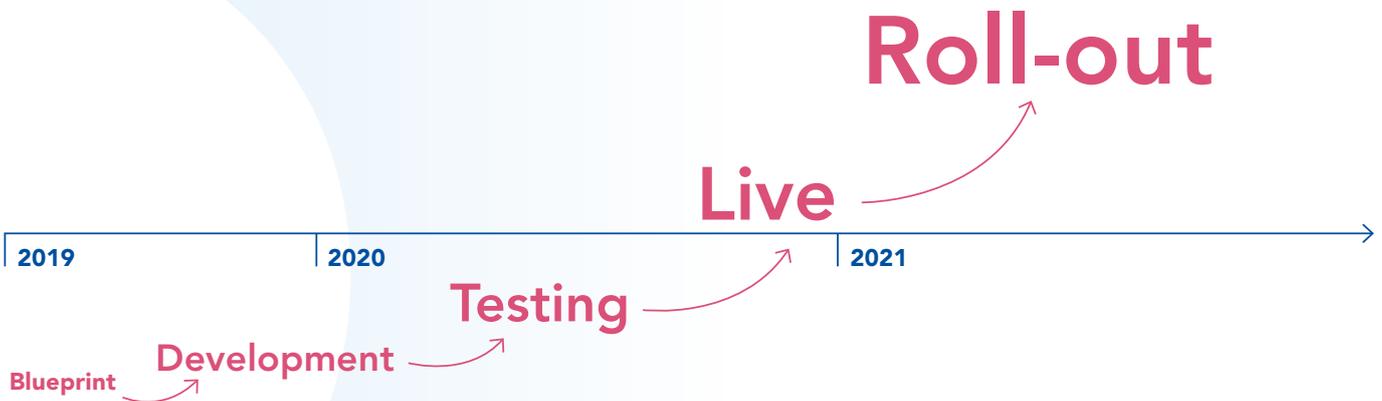
Development and implementation of the R2P infrastructure solution

The specification phase and development of the R2P infrastructure solution started in the summer of 2019 based on the commitment and support of financial institutions from all corners of Europe. The go-live date of EBA CLEARING's infrastructure solution is planned for the second half of 2020.

EBA CLEARING also contributes to the request to pay work stream of the European Payments Council as a member of the Request-to-Pay Multi-Stakeholder Group and will ensure that its infrastructure solution stays aligned with any scheme developments.

DELIVERY OF R2P INFRASTRUCTURE SOLUTION

Go-live in second half of 2020



About EBA CLEARING

EBA CLEARING is the leading private industry provider of pan-European payment infrastructure services, covering large value, retail and instant payments in euro. Founded in 1998, the Company is owned by over 40 of the major banks operating in Europe and based on a country-neutral governance model. Close to 200 banks are direct users of the payment services of EBA CLEARING. The payment systems of EBA CLEARING are pan-European by design and desire: they are developed in close co-operation with the Company's multinational user community and best-of-breed technology partners.

EBA CLEARING manages two Systemically Important Payment Systems, the large-value euro payment system EURO1 and STEP2, a pan-European payment infrastructure platform for mass payments in euro, which provides full reach to all financial

institutions across Europe processing credit transfers and direct debits in euro. This means that more than 4,900 financial institutions in all SEPA countries are currently reachable via STEP2.

EBA CLEARING's pan-European real-time payment platform RT1 processes euro instant payments complying with the SCT Inst Scheme. As of September 2019, RT1 extends reach to over 65% of PSPs providing SEPA payments across Europe.

For more information, please visit www.ebaclearing.eu, or follow EBA CLEARING on www.twitter.com/ebaclearing or <https://www.linkedin.com/company/eba-clearing>.

