



## EBA CLEARING's response to the European Commission's [public consultation on instant payments](#)

23 June 2021

On 31 March 2021, the European Commission published a public consultation with the purpose of informing the Commission on remaining obstacles as well as possible enabling actions that it could take to ensure a wide availability and use of instant payments in the EU. The objective is to also enable the Commission to decide on whether EU coordinated action and/or policy measures are warranted in order to ensure that a critical mass of EU payment service providers (PSPs) offer instant credit transfers. The consultation also seeks to identify factors that would be relevant for stimulating customer demand (from consumers, corporate users and merchants alike) towards instant credit transfers.

EBA CLEARING has submitted a response for the European Commission's consideration raising the following points:

- Instant payments have the potential to benefit all stakeholders in the European retail payments ecosystem. Instant payments have witnessed a steep growth in their use, with adoption and implementation constantly increasing across Europe. Through the two pan-European instant payment systems, RT1 and TIPS, Europe's instant payment ecosystem is well supported by a well-functioning, risk-mitigating, cost-efficient and effective infrastructure backbone that will allow the European payments industry to achieve pan-European reachability for euro instant payments. This has already been achieved for nearly all scheme-adhering participants.
  - In terms of liquidity management, 24/7 SCT Inst solutions, such as RT1, offer robust and effective liquidity management tools, supporting liquidity management and forecasting for participants and efficiently mitigating liquidity management risks for PSPs.
  - Further, there are network effects in SCT Inst systems, such that PSPs participate in the systems where their counterparts are, benefitting from higher liquidity efficiency. This means PSPs can process a larger number of transactions with the same liquidity throughout a day through this reciprocity.
  - Liquidity management for PSPs will further improve with the introduction of TIPS measure 2, whereby PSPs are expected to be able to manage their liquidity in TIPS on a 24/7 basis. However, the costs the Eurosystem is accounting to CSMs should not create disincentives for the uptake of instant payments operated in private sector systems.
  - Finally, the inclusion of balances held in both public sector *and* private sector operated SCT Inst systems in the calculation of minimum reserves or balances held in private sector systems being exempt from remuneration, would further contribute to efficient liquidity management for PSPs, reduce operational risks, avoid fragmentation and be in line with the principles of level playing field.

- Strategic developments in state-of-the-art European retail payments solutions, such as the European Payments Council's (EPC) SEPA Request-to-Pay (SRTP) Scheme, will enable participants to develop a multitude of end-user pay now or pay later solutions. The SRTP Scheme is a natural evolution of the current ecosystem, leveraging existing capabilities and enhancing them with additional functionalities in a cost-effective manner for all the different stakeholders. It will enable SEPA market players to unlock more of the potential of SEPA, in relation to the usage of both SCT and SCT Inst payments. Merchants will benefit from adding SRTP- based solutions, triggering SEPA payments.
- Authorities could encourage the market to take advantage of these existing and developing pan-European products and services and ensure a level playing field in the market, promoting competition and pan-European harmonisation, while ensuring risks, fragmentation and complexity are not increased as unintended consequences.
- Rather than developing new schemes or standards at the infrastructure level, which require significant investments and have an impact for all stakeholders – including merchants –, the payments ecosystem could leverage these existing pan-European payment standards and building blocks. Stakeholders in the ecosystem have made significant investments in this area and these should be taken into consideration, avoiding additional cost for the industry as a whole.
- Further, the existing SEPA payments instruments provide a solid basis for innovation. Adding a relatively small building block to that standard payment process flow, such as SRTP, will further leverage the reach achieved in SEPA in a 4-corner model of payer, payer's service provider, payee and payee's service provider. A 4-corner model based on pan-European standards will enable different actors to each develop innovative solutions and services tuned to their clients' needs, allowing for competition, which in itself can lead to further innovation and the development of new services.
- Regarding potential risks of instant payments, general feedback received from our users is that instant payments, due to the required speed, can pose challenges related to fraud or money laundering processes. Using SRTP-based services can help to mitigate some of the risks in this area: with SRTP, information that provides context to the payment to follow is exchanged between payee and payer. This richer context, in advance of the payment itself, can help detect and prevent fraud or money laundering. This innovation, coupled with efforts to harmonise requirements and expectations at an EU level, would contribute to removing the remaining challenges for the roll-out of instant payments. Specifically:
  - In terms of Sanctions Screening: it would be beneficial to carry out this type of activity in a centralised manner, but it would require a number of adjustments in terms of regulatory framework. For example, PSPs currently each handle their own sanctions lists to filter transactions; in certain jurisdictions PSPs are unable to share information on this topic with their counterparties due to regulatory restrictions preventing, i.a., the use of specific reason codes. A harmonised screening method, with the maintenance of a common EU-wide list and standardisation of e.g. rejection reason codes, would cater for carrying out sanctions screening activities in a centralised manner.
  - SRTP will be able to foster this type of compliance information



requesting/sharing between counterparties. The exchange of data under the SRTP four-corner model operates on a loop basis before the payment is executed. This means each party in the payment chain is responsible for the identification and authentication of its respective customers and, therefore, only the data that is strictly necessary for the payee and the payer to understand who they are transacting with is shared. By integrating relevant data exchanges between the payee and the payer, request to pay can increase the certainty, transparency and convenience of payment processes and thereby speed up the end-to-end process, reduce risk and ease reconciliation.

- SRTP rails allow the data to be presented in a streamlined fashion, which makes it easier for PSPs to effectively perform back-end functions such as reconciliation and exception handling.
  - In terms of Fraud: SRTP will also cater for better managing fraud risk. As part of the payment request, the payer receives a notification to confirm the payment amount and the validated account destination. Before any money is sent, the payer will have received all the information required for them to feel comfortable that the funds will be transferred to the legitimate and intended party and, if the expected account details do not match the actual ones, the payer can swiftly reject the request to pay.
  - On KYC: A SRTP approach based on a four-corner model also entails a number of know-your-customer (KYC) advantages. For any given transaction under this model, PSPs will leverage their existing KYC data and processes to authenticate their respective clients; request to pay service providers will have to implement something similar, in line with the requirements of the EPC scheme. This underpins the security and reliability of the authorisation process for all parties involved.
  - On Pre-validation features, EBA CLEARING believes that SRTP messaging rails could also be used to execute these types of activities. Given the features of SRTP, and the fact that SRTP would enable the exchange of the necessary payment data between service providers before the payment is executed, and the mismatch risk would be fully addressed.
- Under a four-corner model, PSPs and other service providers can maximise the value of these compliance processes and checks by offering their own products and value propositions to vetted clients. Thus, request to pay allows PSPs, in particular, to leverage these mandatory processes and checks.