

# EBF response to European Commission's public consultation on instant payments

23 June 2021

The EBF welcomes the opportunity to respond to the Commission's public consultation on instant payments. We are providing comments mainly on the part targeting Payment Service Providers but also propose some general views on end-user preferences.

## Consumer preferences

### **2. Please rate the importance of the reasons/conditions listed below, which would incentivise you as consumer to opt for an instant credit transfer:**

*Even if the question has the aim to collect information directly from the consumers on their preferences, we would like to give the point of view of the banking industry on this topic, as follows:*

- *consumers expect to have the option of ever easier and faster services so they really appreciate the opportunities to transfer money immediately and 24/7/365. The opportunity to pay in a convenient way in lots of person-to-person and person-to-business situations where cash and cheques are currently widely used is also enjoyed as well as the familiarity with the user experience of this service;*
- *regular SCT should not to be considered as a suitable comparator for SCT Inst costs. The comparison should be made by use case, so that in some cases (B2C, B2B payments, invoicing) the closest comparison could be SCT, and in other use cases (C2B/POS payments, P2P, C2smallB) would be card payments or existing mobile payment schemes;*
- *additional services that can increase security to customers, reducing operational/fraud risks, are important and different market driven initiatives are already available or being developed to address these issues. These initiatives require significant investments also in terms of technologies to be implemented and a sustainable business model. With particular regard to the IBAN verification service, other aspects should be verified and addressed such as its perimeter of application, reachability measures, data to be shared, obligations, rights and liabilities of each PSP involved and related contractual agreements in relation to the current PSD2*

framework. A SEPA-wide IBAN verification service could be extremely difficult to implement from an operational and legal perspective, and it should be ensured that any such measures would not actually end up hindering the take-up of instant payments instead of supporting it. From our perspective these services and related analysis should remain market driven. Further in depth discussion between the Commission and the market after this consultation would be welcome.

- The Consumer Rights Directive can protect the consumer for sale of faulty goods and services etc. and can cover all payment types and not just SEPA Instant Credits. Sustainable economic, technical and governance models would be necessary to support any SEPA Instant Credit trade disputes model.

### **Merchant preferences**

#### **6. As merchant, please rate the importance of each of the factors below when deciding on whether to offer customers the possibility to pay with instant credit transfers at 'point of interaction'. Please explain.**

*As for question 2, even if the aim here is to collect information directly from the merchants, we would like to provide the following considerations.*

*Generally, merchants need a variety of payment methods that ensure that purchases are finalised, therefore all solutions (card, SCT, SCT Inst, direct debit etc) should be considered relevant. Convenience, choice, customer experience, price, etc are all relevant factors for merchant' choice of payment methods offered.*

*From a merchant's perspective, new payment solutions are welcome if they can capitalize the investments already done (cost of equipment, software integration, ...). A convenient payment method should simplify the post-sale activities (reconciliation, claims management, ...), increase efficiency (time/costs) and mitigate risks (e.g. cash management at the point of sale incl. robberies, counting and checking out banknotes, ...). The ability to provide value added services would be key. A new payment method would have an important basic element in Digital ID. The same platform used to authenticate payments should be used to identify the customer in order to ease the online onboarding. All the above factors are key to allow a smooth and seamless payment process and to provide a better service to merchants.*

### **Corporate user preferences**

#### **7. As corporate user, what benefits do you see in using instant credit transfers? Please rate the importance of the type of benefits listed below:**

*The comments we provided to question n. 6 are applicable to corporates too.*

#### **9. Please explain the potential impact on your internal operations arising from adapting them to instant credit transfers.**

*With regard to corporate clients, a key point is payment notification and reporting, with the need of adapting the internal processes to cope with immediate availability of funds and complete instantly the underlying transaction (instant invoicing, instant warehouse unloading).*

*We do not believe that treasury management will become 24/7/365 but that SCT Inst could remove unnecessary stress of payroll or dividend payments, it could be also used for late or scheduled on fix day supplier payments. SCT Inst is also valuable for B2C area where the reimbursement in real time can have great commercial impact on the relationship with customers.*

**10. In your view, is the fact that euro instant credit transfers under the SCT Inst. Scheme are currently capped at EUR 100,000 an obstacle to their use by corporates?**

- a. Yes (please explain)**
- b. No (please explain)**
- c. No opinion**
- d. Not applicable**

**10.2 Please indicate at what level the cap should be. Please explain:**

*Currently the SEPA Inst. standard has an amount limit of 100,000 Euro for an instant payment transaction. We think this limit would be adequate at present for retail customers. Corporate customers may require higher limits in the future. In our opinion, before raising the amount limit it would be necessary to gain sufficient experience over an adequate period of time about how the settlement of instant payments has been done in order to avoid problems with e.g. liquidity management. Any step forward must be taken gradually.*

**11. Would the availability of batch processing of instant credit transfers (for multiple payment transactions bundled together), as opposed to the processing per each individual transaction, make the use of instant credit transfers more attractive to corporate users?**

- a. Yes (please explain)**
- b. No (please explain)**
- c. No opinion**
- d. Not applicable**

*Under the SCT Inst scheme, payment end-users already have the possibility to submit bundled SCT Inst instructions to their PSPs. Reference is made to the SCT Inst Scheme Customer-to-PSP Implementation Guidelines. The described pain.001 message used by payment end-users caters for bulk and single payment instructions.*

**13. What type of value added services would make instant credit transfers more useful from your perspective (e.g. Request to Pay, e-invoicing)? Please explain.**

*Several initiatives aimed at supporting the take-off of instant payments exist across the EU. Amongst these, we think that the development of the new "Request to pay" scheme is an important element that will help streamline the end-to-end payment experience in a broad range of use cases. The harmonization and interoperability between solutions that allow initiating payments from a mobile device and/or paying at*

*the POI will fuel the growth of IP. Nevertheless, we believe value added services should respond to users' demand and be led by market forces, as this will ensure a wider support, a faster adoption of any standard and the future evolution of the standard, not subject to regulatory constraints.*

**Payment Service Provider (PSP) perspective**

**15.If you are a PSP providing and maintaining payment accounts for payers, have you adhered to an instant credit transfer scheme. Please explain your answers**

*Market adoption of SCT Inst has progressed well in terms of technical and process development. In terms of adherence to the SCTInst scheme, as of April 2021, the scheme includes 2,310 payment service providers from 23 countries in Europe (58 percent of the total number of participants in and over 68 percent of the total number of participants in the euro area). The volume of transactions in the fourth quarter of 2020 represented almost eight percent of the total volume of SCT and SCTInst transactions in SEPA.*

*We call upon EU banks to adhere on a voluntary basis to the SCT Inst scheme, which forms one of the major building blocks of a future pan-European solution. If adherence were to be mandated through legislation, PSPs must be given a sufficiently lengthy rollout period due to technical build and consumer considerations. The Commission should also carefully consider the needs and costs of SCT Inst for non-eurozone markets and PSPs. Moreover, it is important to take into consideration that some PSPs have very specific or 'niche' customers who do not need instant payments and therefore it would not be proportionate to mandate these PSPs to adhere to SCT Inst. We would also emphasize the importance of resolving issues around sanctions screening as the current situation can present an obstacle to some PSPs wanting to adhere.*

**16.What benefits do you see, as PSP, in offering instant credit transfers? (please rate the importance of the benefits listed below):**

	(unimportant)	(somewhat unimportant)	(neutral)	(somewhat important)	(important)	No opinion	Not applicable
New source of revenue			x				
Attract a larger customer base				x			
Preserve the existing customer base					x		

Save costs in other areas of operations (e.g . cash management and distribution, ATM maintenance, security costs)			x				
Ability to (cross) sell other services				x			
Provide an alternative to other widely used means of payment such as cards and therefore generate cost savings and become more independent from other providers			x				

Other (please specify)							
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- *We agree with the European Commission and the ECB on the importance of building homegrown pan-European payment solutions, based on existing infrastructures. This will enlarge the choice of payments instruments for users - in particular for consumers, because instant payments can propose an alternative to cash and debit card transactions. Pan-European instant payments can contribute to achieving a more integrated Single Market in retail payments. For this to fully materialize, European market actors should be able to launch pan-European solutions that can successfully compete with incumbent and future non-European providers.*
- *However, we consider of the utmost importance that the EU Commission clarifies as soon as possible its overall vision of a future EU payments landscape, where there is widespread use of instant credit transfers (and therefore not only PSP but for instance also merchants will have invested to make that widespread use a reality) and at the same time a digital euro could be issued, as the latter could displace the benefits of instant payments entirely and multiply the investment required.*
- *Although instant payments can be used in a number of use cases, they will mainly compete with card-based payments, a long-standing payment means with different features offered by a number of schemes, leveraging a highly expanded acceptance network and with proved business models. The challenges of creating instant payment-based solutions that can compete with such card systems should not be underestimated. Therefore it is important that the right incentives are in place to make instant payments competitive over time vis-à-vis other payment means, in particular:*
  - *Allow the possibility of charging merchants and/or payment users for the provision of instant payments, depending on the relevant business model.*
  - *Leave to the market the level of fees that can be charged, because this would be positive to promote competition in the market. Regulating the level of fees risks introducing inadequate incentives for competition and innovation and biases in favour of certain payment means to the detriment of others.*
  - *Solutions to deal with fraud and consumer protection should be market-lead.*
  - *Regulatory stability over time regarding payment-related topics is essential, in particular during the period required to consolidate the emergence of pan-European instant payment schemes.*
- *Notwithstanding our support for the development of instant payments, it is important that the expectation is not that all current SCT transactions would be replaced by SCT Inst. It is not necessary or purposeful to strive for such outcome. The different actors in the payment chain are not currently ready for such a change, therefore the focus should be first on the areas where instant payments can really add value.*
- *It is also important to assess instant payments as a new, separate payment instrument with its own characteristics and use cases, without a one-to-one comparison with any existing payment instrument or method. Instant payments will have characteristics of regular credit transfers, card payments or even direct debits depending on the use case. Therefore, when reflecting on the different enabling factors (solutions for sanctions screening, fraud prevention tools, pricing, consumer protection etc), it is important to assess any measures in light of the different use cases and not at the instrument level.*

**17. In your opinion, could instant credit transfers aggravate bank runs and thus contribute to bank failures?**

**a. Yes**

**b. No**

**c. Don't know / no opinion / not applicable**

17.1. **If so, which of the following mechanisms or tools would you consider as useful in addressing this type of intense liquidity outflows?**

	Yes	No	I don't know	Not Applicable
A daily limit as regards the amount which could be transferred via instant credit transfers?				
A discretionary power allowing competent authorities to suspend instant payment obligations of the financial institution concerned for a certain period of time?				
Other mechanisms that may be available to either PSPs or competent authorities Please specify				

*We consider that whilst the current restrictions continue to apply and volume does not increase exponentially that instant credit transfers are not likely to aggravate bank runs and thus contribute to bank failures. However, this could potentially change if present conditions alter dramatically. An example could be if instant payments account for a much larger proportion of the existing RTGS market.*

*Within the current SCT Inst scheme conditions and limitations, we do not see a potential risk of aggravating bank runs. We refer to the current pre-funding SCT Inst settlement model ASI model 6 Real-Time, which offers PSPs an instrument to limit their exposure. However, when promoting further use of instant payments, it is important to ensure that instant payment solutions - whether facilitated by an ACH or through TIPS - has adequate features to ensure robust, reliable, and flexible liquidity management during e.g., weekends and bank holidays when central bank RTGS-system are closed. Such a setup should ensure that customers will not experience unexpected interruption of instant payments, as well as ensuring that clearing participants receives warnings if transaction volumes and liquidity needs are different than expected. This way the clearing participant will be able to allocate more liquidity if needed or otherwise stop liquidity outflow if a bank run is occurring.*

*Additionally, although instant credit transfers are not by themselves aggravating bank runs, there can be extraordinary circumstances such as unfounded rumors where the customers might want their deposits to be reimbursed and instant credit transfers might be the easiest and quickest way to do it, with an extraordinary effect on the liquidity outflow. Risk mitigation measures could also be incorporated through regulation to allow banks under certain stress-conditions, including fraud suspicion and those that could eventually aggravate bank runs and thus contribute to bank failures, to propose alternative redirection of instant payments into other ordinary payments always with the customer's consent or transparent information prior to the execution of the service. That could avoid transaction failures or refusals to execute payment orders.*

*Having said that, and with a view to having a shared vision of the future therefore ensuring there is no credit risk between the clearing participants, it is crucial that all instant payments are guaranteed (/backed) by central bank money and/or funds deposited at the central banks.*

*Furthermore, SCT Inst scheme participants already apply limits (e.g., an aggregated daily value limit and/or a transaction limit) for their customers to make SCT Inst transactions. Such limits can be adapted very fast to react on such situations. These scheme participants also apply daily ATM withdrawal limits. These limitations are set for several reasons incl. to protect their customers in case of e.g., fraud. However, before focusing on the amount limit it would be necessary to solve other problems (i.e AML) and gain experience about the impact on the liquidity management over an adequate period of time.*

## Technical standardisation

**18. In your view, should a single European QR code standard for instant credit transfers be available? Please explain.**

- a. Yes, it should be developed by market participants**
- b. Yes, it should be developed by the European standardisation organisations**
- c. Yes, for other reasons**
- d. No, I don't believe there should be a single EU QR code standard, because I think that the same objective could be achieved through the interoperability of existing QR codes**
- e. No, I don't believe there should be a single EU QR code standard, because other technologies (e.g. Near Field Communication) are safer and/or more convenient**
- f. No, for other reasons (please specify)**

## Horizontal aspects

**19. Do you believe that the widespread use of instant credit transfers could trigger risks that could negatively affect operations of a particular financial sector or pose broader societal costs (e.g., in terms of privacy)?**

- a. Yes (please explain)**
- b. No**
- c. Don't know / no opinion**

*Although we may not fully understand the background of this question, we do not think that the SCT Inst payment instrument causes a higher negative impact compared to other electronic payment instruments.*

*The SCT instrument in use since January 2008 formed the basis to develop the SCT Inst instrument. The SCT scheme has not created any negative impact that this question refers to. Apart of the different execution timeline, the two credit transfer instruments from the EPC are very similar. This being said, there are of course aspects that require increased attention when it comes to SCTInst (such as effective and efficient fraud prevention).*

**20. Do you consider that instant payments could bring broader societal benefits**

*The SCT Inst scheme offers PSPs the opportunity to meet consumer expectations in terms of availability of fast and reliable payment in all contexts: purchases on-line and physical shops, payments between individuals, corporate payments, national and cross-border payment transactions).*

*We consider that instant payments can bring wider benefits in several areas, included those mentioned in the table above.*

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