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flow briefing

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Taking instant payments in Europe to the next level

The EU Regulators adoption of the SEPA Instant Payment Regulation marks the next stage of development for harmonised instant payments in Europe, bringing numerous new possibilites and use cases, as well as new requirements for payment service providers (PSPs) and their customers.

Introduced in 2017 for the Single Euro Payments Area (SEPA), instant payments can no longer be considered a new topic – but neither is it yet fully mature. In the past seven years, instant payments have evolved to become a premium payment service for most European countries, rather than the new standard for European credit transfers. Pushing on to the next stage of the instant payment journey, achieving greater reachability has been an important target for the banking community and regulators.

The new regulation, which came into force on 9 April 2024, will make participation in instant payment transfer systems mandatory for all PSPs across the European Union (EU). The outcome goes beyond what was initially anticipated, with the European Commission seeking to make instant payments the "new normal" for payments in the EU.

To reach this objective, the regulation lays the foundation for a modern European payment infrastructure – one that will allow other initiatives and payment schemes, such as the European Payments Initiative (EPI) as well as Request to Pay (RTP), to build on the existing payment rails while unlocking new possibilities to improve customer experience across different channels.

Areas addressed by the regulation

What problems did the EU recognise with instant payments adoption in the past and how are they trying to solve them with the new regulation?

1) Offering of instant payments services

According to the European Payments Council (EPC) around a third of SEPA scheme participants are not part of the SEPA instant scheme either as a direct or indirect participant of the scheme.

For an instant payment transaction to work both the sending and receiving PSPs must be participants of the scheme.

While institutions like Deutsche Bank already offer alternative solutions for bridging gaps in reachability – such as a rerouting service to SEPA classic in case of non-reachability of a beneficiary PSP – the full effect of instant payments depends on attaining a wide adoption across the market.

2) Fraud prevention

A key characteristic of instant payments is the finality of a transaction within 10 seconds – the fear is that this feature will attract fraudsters to misuse the payment method. While we have not observed incidence of fraud cases with instant payments on larger scales, ensuring low fraud rates for payments in general requires real-time monitoring and validations that need to be executed accordingly.

3) Pricing

The regulator also regards the higher transaction-level charges as a reason for lower adoption rates of instant payments across the European market. It suggests that a customer would probably opt for classic credit payments for non-time critical use cases.

Continued overleaf →

4) False positives in sanctions screening

With the finality of an instant payment within seconds, false positives in the transaction screening will automatically lead to a rejection of the transaction as manual intervention and investigation is not possible in such a short timescale.

To improve the general customer experience an alignment at an European level with respect to procedures in screening is needed, which has been missing until now.

5) Level the playing field

Payment and electronic money (e-money) institutions have been unable to become active participants in the scheme yet and need to rely on banks for the solutions offered for payment processing and to act as a gateway to central bank liquidity and other clearing services. The EU strives to harmonise rules set out for bank and non-bank PSPs.

High-level changes of the Instant Payments Regulation

The Regulation (EU) 2024/886 is an amendment of the following existing regulations and directives to mitigate current blockers for a market wide instant payments adoption:

- Regulation (EU) No 260/2012
- Regulation (EU) No 2021/1230
- Directive 98/26/EC
- Directive (EU) 2015/2366

The regulation, therefore, introduces the following changes:

Offering of instant payments services: PSPs located in the European Economic Area (EEA) will be required to offer the service of sending and receiving instant payments to all their payment service users (PSUs). The members of the EEA include all members of the EU, as well as Iceland, Liechtenstein, and Norway.

The sending of instant payments will be possible through all payment initiation channels through which a PSU can already place other credit transfers.

Although PSPs may already offer the capability of instant payments initiated in a bulk file, the regulation now seeks to bring it into force as a mandatory offering. Where PSPs offer bulk payments for non-instant credit transfer methods, they will now have to offer it for instant credit transfer as well.

PSUs will gain the option to set their own amount limits, either on a transaction basis or as daily limits, for their instant credit transfers. This amount limit can be modified and controlled by the respective PSUs.

VoP (Verification of Payee): PSUs will be offered the service of "Verification of Payee", which will be performed before payment initiation to ensure the correct combination of account holder name and account number of the respective payee. This service will be offered to PSUs using all types of SEPA payments. The PSU will, as a result of executing this service, receive either a

- "Match" response, where the given information matches the actual data set
- "Close Match" response, where given information is mostly correct (e.g., if a letter was missed)

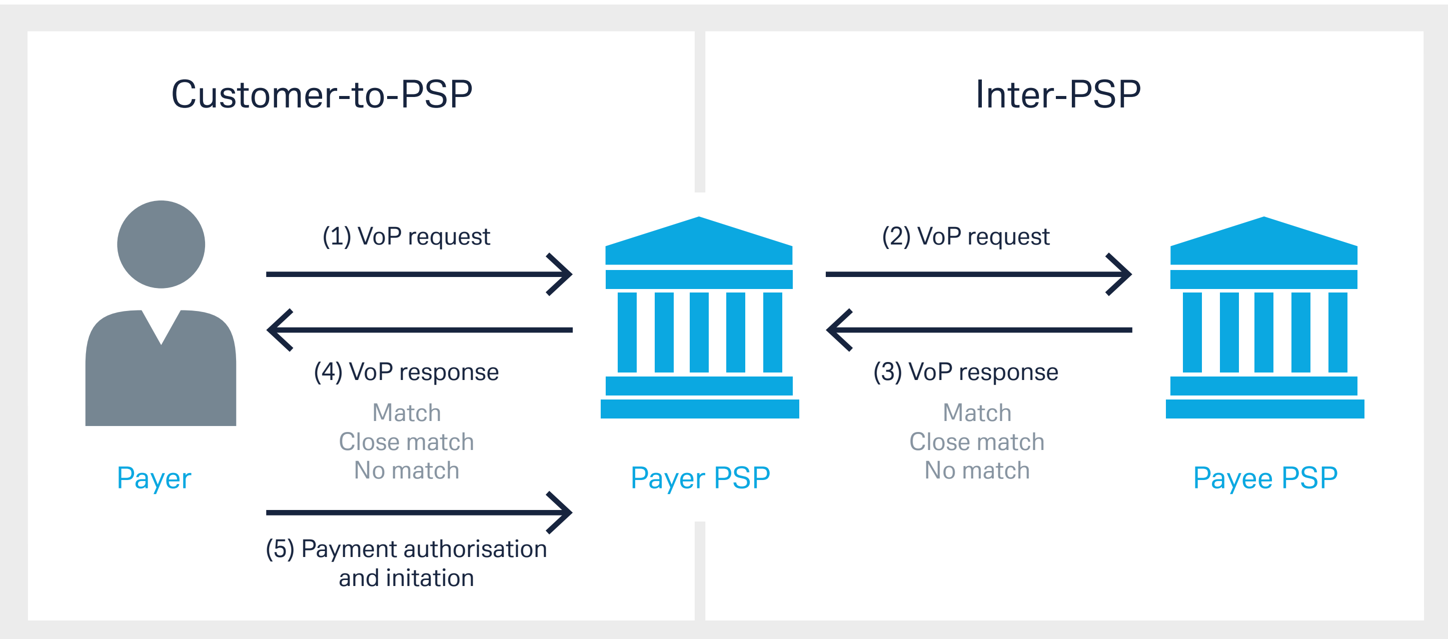

Figure 1: Verification of Payee process

Source: Deutsche Bank, Note: Third-Party Applications between C2PSP and Inter-PSP communications are excluded

– “No Match” response, where given information is incorrect.

In case of a “Match” response, the payment initiation and processing can continue without any intervention. Implementation approaches are currently being discussed in market-wide working groups and the EPC is working towards publishing a Verification of Payee Scheme Rulebook.

The intention of this service is to prevent fraud before payment initiation by giving the PSU the opportunity to check the beneficiary details.

Charges: To increase instant payments adoption, the regulation foresees that charges raised by a PSP on payers and payees for the sending and receiving instant credit transfer shall be comparable to the charges raised for the sending and receiving classic credit transfer.

Screening: The regulation foresees that the PSPs should periodically screen their customer base – at least daily and with every entry into force or amendment of new targeted financial restrictive measures. As a result, the real-time transaction screening of the EU harmonised sanction list is no longer required.

Inclusion of e-money and payment institutions: E-money and payment institutions will have the option to access the Real-Time Gross Settlement (RTGS) system for direct central bank liquidity and will be required to offer instant payment services to their customers in dedicated timelines, while having to meet the same regulatory standard as banks in terms of fund management and payment processing.

They can still opt for partnering with bank PSPs to offer the clients instant payment services but will be required to ensure the VOP service.

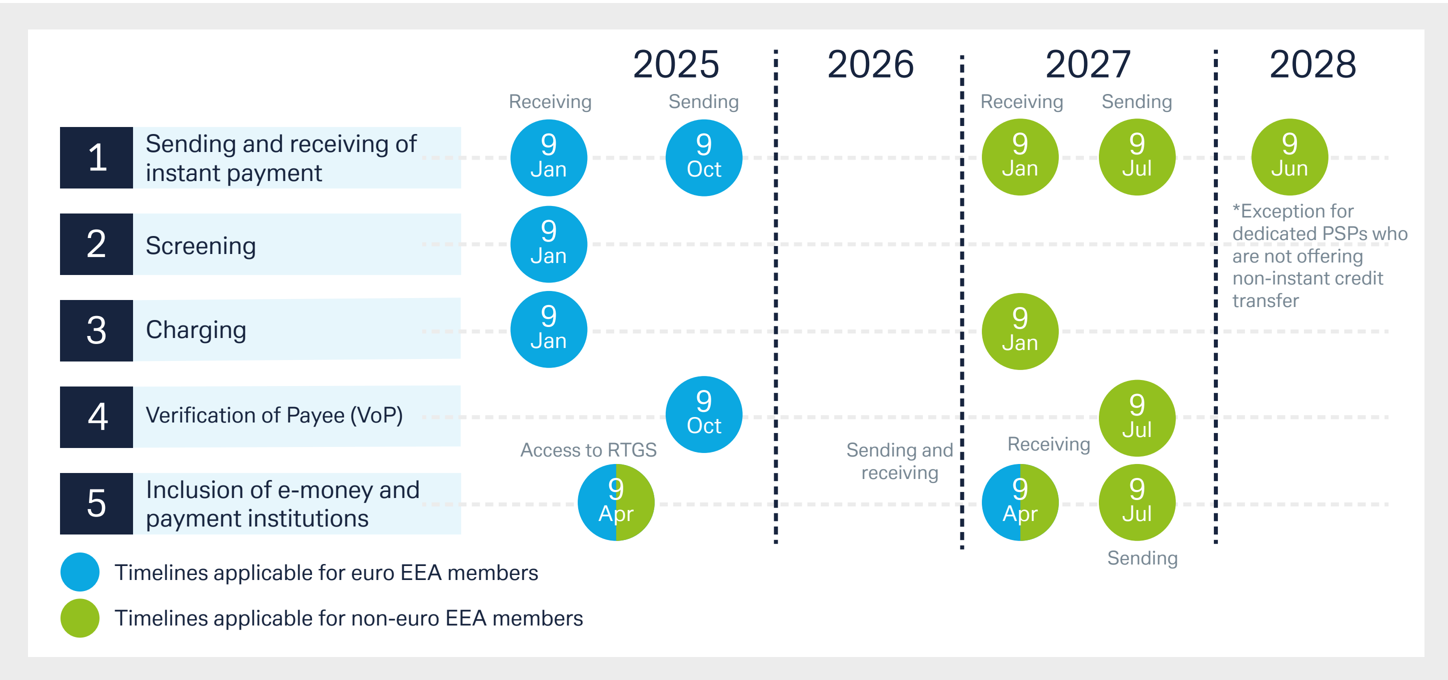

Figure 2: Timelines of the regulation

Source: Deutsche Bank

Opportunities for market innovation

This regulation, created and published to increase the SEPA-wide instant payment adoption, should act as a pathway towards further market innovations and beneficial use cases for end-consumers of payment services.

Accelerating processes with instant payments

Already established use cases for instant payments such as collections and merchant payouts, insurance payouts or instant fund transfer for returned goods can be further promoted and accelerated.

Take the example of a merchant payout, where a marketplace receives a money transfer in form of an instant payment, card payment or any other payment method in exchange for the offered products or services on their account held with the PSP.

With the immediate exchange of funds, the access to the offered service or the shipping of the product can happen immediately.

The actual payout of the collected money to the merchant which happens in an agreed and timely manner between the marketplace and the merchant can be initiated via single or bulk instant payments.

This way, the merchant receives his/her money instantly and can benefit from the immediate access to his funds.

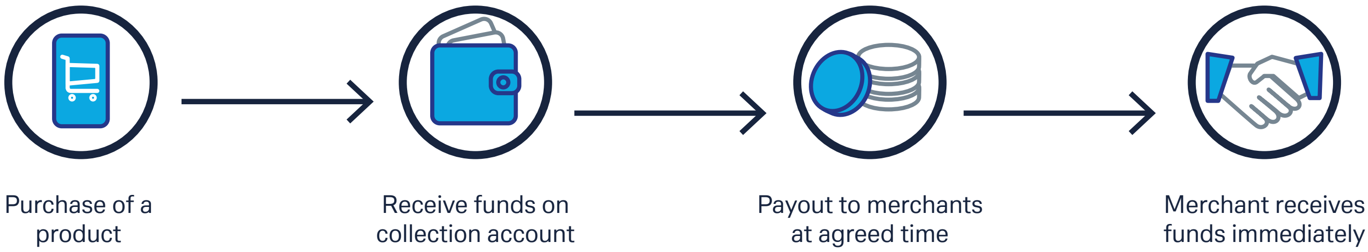

Figure 3: Process for merchant payouts with instant payments

Source: Deutsche Bank

Request-to-pay (RTP)

Request-to-pay (RTP) is an additional messaging service that simplifies the payment process for the customer and benefits from an increased offering of instant payments.

Through RTP services a payee can send a direct payment request towards the payer with all necessary payment details such as amount, preferred execution date and account details. The digital payment process becomes more convenient for the payer and the payment reconciliation is simplified on the receiving end.

The payer is able to either accept or reject the request. In the event of an acceptance the payment is initiated automatically from the payer's PSP towards the payee's PSP.

The combination of instant payments capabilities and RTP services can form a seamless end-to-end (E2E) flow, which previously had been missing in the market for the peer-to-peer (P2P), business-to-business (B2B) and business-to-consumer (B2C) space.

The EPC has already set out a rulebook in 2021 (SEPA RTP Scheme Rulebook) which currently runs on its third version but until now there is no market-wide adoption.

For Deutsche Bank's own solution on RTP based on PSD2 please read this case study on how credit manager Lowell uses RTP to simplify payments for the consumer.

European Payment Initiative (EPI)

EPI is an account-to-account solution (A2A) with digital wallet capabilities. This pan-European initiative builds upon instant payments for transaction transfer and aims to offer a digital wallet solution (Wero) which can even be used for central bank digital currency (CBDC) transfers in the future.

In December 2023, EPI reported their first successful transactions and plans to go live in Belgium, France and Germany by mid-2024.

EPI's solution targets the online commerce space following also point of sale (POS). Retail customers will have a new option for a payment method that is aligned at European level, backed by 16 financial institutions so far.

For more information on EPI please follow this link: European Payments Initiative - Changing The Way Europe Pays (epicompany.eu)

Next steps

The regulation will have a significant impact on the European payments market in numerous ways.

The detailed requirements and tight timelines put banks and other financial institutions in a position to act fast and familiarise themselves with what is to come. In response to queries on various detailed requirements resulting from the regulation, the European Commission has agreed to a Q&A to resolve open questions in support of the implementation phase of the regulation.

Instant payment transactions to and from payment accounts will need to be fully accessible 24/7/365, even outside standard business hours, which can have an impact on certain business models and workflow procedures.

In general, we anticipate rising instant payments volumes across markets as an outcome of this regulation coupled with a better exploita.

It remains to be seen to what extent it will impact certain use cases, market conditions and offerings.

For further information and advice on your business please contact your Deutsche Bank Cash Management point of contact – we are happy to accompany you on your journey and help find the most suitable solutions for your specific business case.

[1] EPC047-24 v1.0 Overview scheme adherence 2023-03-08.pdf (europeanpaymentscouncil.eu))