


# POSITION PAPER



## Instant retail payments for Europe: a Blueprint

February 2015



## Instant retail payments for Europe: a Blueprint

It is indispensable to debate instant payments now. In an ever more interconnected, always-on environment, with the promise of an Internet-of-Things, needs for instant payment capabilities have to be met. A number of service providers already responded to that requirement with proprietary solutions, in a few European countries<sup>1</sup> a national solution has been proposed, and e-money solutions<sup>2</sup> are available too. These developments did not escape the attention of European policymakers who, duty-bound, promote the emergence of a pan-European solution (or: solutions).

ESBG welcomes a debate on instant payments: a focus on scoping and aligning demand and supply requirements will be the opportunity to move from mere compliance to business-driven market development and give Europe a chance to reconnect with the world's leading economies in terms of payment system efficiency.

### 1. The scope for the instant payments debate

Obviously definitions of instant payments abound. Multiple variables could be taken into account to describe the scope of an instant payment, e.g. the time it takes for execution, the channel and/or the payment instrument(s) used, whether confirmation is provided instantly, and to whom, the payment amount, the underlying reason for the payment transaction, ... There can be no doubt that stakeholders both on the demand and supply sides and regulators will hold different yet justified views on the scope, depending notably on their segment(s) and on geography.

A starting point for the debate could be the definition proposed by the ERPB in its November 2014 discussion paper<sup>3</sup>: "instant payments are hence defined as electronic retail payment solutions available 24/7/365 and resulting in the immediate or close to immediate interbank clearing of the transaction and crediting of the payee's account (within seconds of payment initiation), irrespective of the underlying payment instrument used (credit transfer, direct debit or payment card) and of the underlying clearing and settlement arrangements that made this possible".

This definition certainly is a broad one – as it should from a policy perspective. However, as the prospect necessarily is the inception of a project which will lead to the implementation of a Europe-wide capability to initiate, process and receive instant payments, the proposed definition should first be assessed against a set of guiding principles.

### 2. Guiding principles to consider

- Legal framework: the European legal framework for payments<sup>4</sup> has been substantially enhanced over the past decade, in particular with respect to consumer information and protection, and participation of non-credit institutions. There is no need to adjust this framework further.
- Existing payment infrastructure: the European payment system is underpinned by a proven, well-functioning real time gross settlement payment infrastructure<sup>5</sup> (soon to be complemented

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<sup>1</sup> Denmark, Norway, Sweden, United Kingdom – or being contemplated: Finland. Outside Europe notably the following countries launched or contemplate « immediate payments » projects: Australia, Canada, Mexico, United States

<sup>2</sup> Enabling notably P2P and P2Merchant payments

<sup>3</sup> »Pan-European instant payments in euro : definition, vision and way forward « - European Retail Payments Board , 12 November 2014

<sup>4</sup> Including the SecuRePay Recommendations (and the related, to be issued EBA Implementation Guidelines)

<sup>5</sup> TARGET2



by an infrastructure allowing an even more efficient movement of collateral<sup>6</sup>). Policy work on instant payments should indeed remain agnostic with respect to the supporting clearing and settlement arrangements<sup>7</sup> – provided that supervisors and overseers can be satisfied that operational, liquidity and settlement risks are adequately controlled.

- Single Market principle and architecture: the instant payments solution (or: solutions) should have the ambition and capability to serve originators and beneficiaries holding accounts in Euro for transactions in Euros without distinction of location throughout SEPA. The choice of the payment architecture to achieve that goal must be left to market participants. It is useful to remember here that TARGET (the Euro real time gross settlement system) began as a bridge interlinking national real time gross settlement systems prior to migrating to a single platform, integrated system.
- Single Market principle and business model: given the above consideration, the reach of any instant payment solution must be the result of its appeal to both originating and receiving payment service providers, including their individual assessment of the various business cases – as opposed to any legislated mandate to send and receive.
- Risk management: although instant payments can be instructed by any type of push or pull payment instrument, the latter are not neutral with respect to the legal and operational risks they generate for both end-users and payment service providers. In order to keep risks (and allow payment service providers to apply efficient risk detection procedures) and hence costs to end-users in check, it is recommended to – certainly in an initial phase – base instant payment solutions solely on the credit transfer instrument.
- Risk and liquidity management: ultimately the market will decide the use cases for instant payments. Certainly in an initial phase it is appropriate to set rules that allow payment service providers to gain experience in this field and manage risks, notably those related to counterparty, liquidity, and compliance (including AML and FATF obligations, for which regulatory guidance will be required). One such rule could be a per transaction cap, allowing both a wide range of use cases to develop and risks to be managed (the transaction cap could be use case-dependent, e.g. much lower for P2P payments).
- Emerging technology and phasing: stakeholders are invited to acknowledge that technologies currently beginning to be tested in the market could lead to a novel payment system architecture at some point in future. To optimize investment and minimize costs to end-users it is recommended that in a first phase existing components be leveraged as much as possible.

### 3. Redefined scope

In light of the above the ERPB draft definition would be narrowed and clarified. Instant payments would be “electronic retail payment solutions available 24/7/365 and resulting in the immediate or close to immediate inter-payment service provider clearing of the credit transfer transaction and crediting of the payee’s account with confirmation to the payer (within seconds of payment initiation), irrespective of the underlying clearing and settlement arrangements (e.g. bilateral, multilateral, in real time, and/or with collateral) that made this possible”. Such solutions would complement existing solutions using either the real time clearing and gross settlement infrastructure or retail batch

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<sup>6</sup> T2S

<sup>7</sup> Such arrangements may be use-case dependent and take different forms, e.g.:

- Clearing without guarantee of the ordering payment service provider and deferred settlement but with immediate information to the beneficiary by his payment service provider
- Clearing with guarantee and deferred settlement but with immediate information to the beneficiary
- Clearing and immediate settlement and immediate information to the beneficiary



payment systems (i.e. “automated clearing houses” or equivalent arrangements) or card scheme systems which continue to meet market requirements.

#### **4. Sketch of business requirements to be met by a Euro instant payment solution**

From the perspective of each main stakeholder category, the following business requirements are likely to be expected:

- Customer expectations for instant retail payments:
  - Real-time operation and support, 24/7/365
  - Reliable and secure process (e.g. Internet security should comply with EBA Guidelines from August 2015 on).
  - Clarity of value proposition (either instant, final payment end to end, and/or instant confirmation of irrevocable payment)<sup>8</sup>
  - Convenient interface to instruct instant payment (preferably using a known screen), receive and understand notification
  - Cross-border coverage (at least the entire SEPA)
  - Application level acknowledgement of the payment received by the beneficiary.
  - Confirmation message from beneficiary payment service provider to originating payment service provider, either acknowledging successful credit to beneficiary account, or giving the reason for rejection
- Payment service provider requirements for instant retail payments:
  - Certainty of final settlement
  - Settlement using existing collateral, if collateral is required
  - Clearing and settlement must be implemented so that 24/7 operation is efficient in terms of liquidity use and does not cause uncontrollable liquidity management risks
  - ISO20022 message standard between banks
  - Existing payment infrastructure should be utilised as much as possible: easy interfacing with existing payment service provider applications
  - Any number of payment credentials should be supported e.g. payment account number, mobile number, token... A federated converter capability would be an asset.
  - Allowing for the mobilization of adequate fraud prevention, detection and remediation capabilities, and meeting compliance requirements including AML, FATF obligations
  - Enabling as broad reachability as possible, seamless interconnection between different instant payment solutions available in the market
  - Scalable capacity
  - Cost-effectiveness
  - Sustainable business model
- Authorities’ likely demands for instant retail payment solutions
  - Compliance with CPSS-IOSCO 24 principles e.g. management of credit, liquidity and operational rules, settlement finality, continuity and back up arrangements, efficiency and liability, disclosure of governance, rules and procedures.
  - Based on Service Level Agreements
  - No restriction of competition
  - Reporting.

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<sup>8</sup> This though is not implying that all use cases will require all functionalities, or make use of them in the same manner



## 5. Outline of a roadmap

Bringing together the proposed guiding principles, redefined scope and potential business requirements the following is a realistic roadmap towards the delivery of a pan-European core infrastructure for instant retail payments:

- There should first be an ERPB-level political confirmation that demand and supply-side stakeholder and policy makers (including the Commission) are aligned over market requirements for pan-European instant payments, and over the conditions for the provision and operation of market solutions (including the evolution of existing ones, and those to be developed). This assumes that the PSD2 revision will have been stabilized by that time. Stakeholder consensus could be expressed at the June 2015 ERPB meeting.
- In a second phase, the ECB should confirm that its oversight standards for euro retail payment systems would similarly apply to instant payment systems including any interlinking. In parallel a business requirement and data modelling exercise would be performed to assess the suitability of ISO standards for instant payments, and sketch a confirmation request and confirmation standard. Options for converting between proprietary and/or national solutions and these “destination-standards” would be formulated. Finally the key components of the model of a white-label instant payment scheme (which could be leveraged by any grouping of eligible market participants) would be defined. This second phase could be concluded at the November 2015 ERPB meeting (at the latest at the first 2016 ERPB meeting).
- In a third phase, market participants will be invited to develop solutions meeting the above standards and requirements – whilst relevant, already existing solutions would publish a deadline by which interlinking will become possible. Progress would be monitored by the ERPB. At least one pan-European instant payments capability meeting the above conditions should be available by mid-2017.

## 6. Conclusion

The deployment of an instant payment infrastructure will enhance payment system efficiency by reducing the “friction” generated by the current, necessary layering that is the outcome of market and regulatory developments in the cards, internet and mobile spaces. Therefore, ESG supports an initiative that will create the conditions for a pan-European instant retail payment infrastructure to develop. There is no conflict between a long term vision and a near term approach that leverages the existing settlement infrastructure and (to the furthest extent possible) messaging standards and balances customer requirements with strong business model and business case imperatives. Thus any even implicit “utility” approach that shifts more system costs to non-users will be prevented. In such an environment the market solutions that will emerge will find ways to integrate the unbanked and under-banked populations into their value propositions. With the policy maker maintaining a clear distinction between authorization and clearing on one side, and settlement on the other, and ensuring a business case based motivation of payment service providers the conditions will be set for the latter to over time bring in new technology and models.



## About ESBG (European Savings and Retail Banking Group)

ESBG brings together savings and retail banks of the European Union and European Economic Area that believe in a common identity for European policies. ESBG members support the development of a single market for Europe that adheres to the principle of subsidiarity, whereby the European Union only acts when individual Member States cannot sufficiently do so. They believe that pluralism and diversity in the European banking sector safeguard the market against shocks that arise from time to time, whether caused by internal or external forces. Members seek to defend the European social and economic model that combines economic growth with high living standards and good working conditions. To these ends, ESBG members come together to agree on and promote common positions on relevant matters of a regulatory or supervisory nature.

ESBG members represent one of the largest European retail banking networks, comprising of approximately one-third of the retail banking market in Europe, with total assets of over €7,300 billion, non-bank deposits of €3,479 billion and non-bank loans of €3,947 billion (31 December 2012).



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Published by ESBG. February 2015