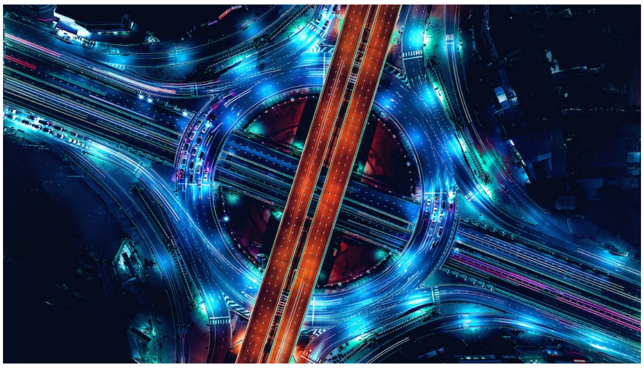
Instant Payments: What Developments Would the European Commission Like to See?



[**Financial Institutions**](), [**Payment Service Providers**](), [**Banking**](), [**Merchants**]()
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On September 2, the European Commission (EC) published a document concerning the current and foreseeable benefits of instant payments. The EC document explains that instant payments can be used for transfers between individuals Person-to-Person (P2P) or Consumer-to-Consumer (C2C), and between individuals and businesses (B2C and C2B). The main obstacle to the achievement of this goal, according to the EC, is that adherence to SCT Inst is progressing slowly across EU Member States.

The paper highlights the benefits instant payments may bring to consumers and describes **P2P instant payments at the point of interaction** (POI) as a typical use case, and **pay on delivery transactions** as a possible use. It is interesting to note though that the pricing of instant payments to consumers is not directly mentioned, nor is there a suggestion that instant payments should be free for the consumer.

On the merchant side, it is interesting to note that **a possible reduction of the fees paid for accepting payment cards** is listed among the benefits instant payments can bring to merchants. More precisely, the EC document explains that, during the two years following the adoption of the Interchange Fee Regulation, merchants have seen an increase in fees, mainly composed of the so-called "scheme fees" that are charged by international schemes and on which European domestic card schemes – which do not charge scheme fees – depend for cross-border acceptance.

Furthermore, according to the EC document, merchants could offer **rebates** instantly, and instant payment solutions characterized by specific functionalities such as "Request to Pay" (R2P) or Open Banking may guarantee the efficiency of a merchant's PSPs payment process end-to-end without any manual intervention.

The listed possible benefits for corporate users include, among others, **real time treasury management** and the fact that instant payments may be combined with additional features such as rich data (the original invoice, for example) or automated payments, offering corporate treasurers a **better cash management possibility**.

As for the payment service providers (PSPs), the document highlights that Open Banking can allow PSPs to add functionalities to an instant payment initiated by a customer, such as an instant notification of receipt of payments or confirmation of payee or the granting of a loan at the time of making a purchase. Furthermore, **PSPs may be allowed to provide treasurers with everything they need in one place by means of the integration of instant payments with open banking**

platforms, APIs, treasury dashboard tools and virtual account management solutions at the corporate level.

Moreover, a **Request to Pay service (R2P)** could allow merchants to push payment requests to their clients in real-time through their mobile devices rather than sending an invoice. The EC document specifies that PSPs have a key role to play in building an instant payments solution for the EU, failing which all the payment segments based on instant payments are likely to be taken over by international players.

As for the **impact of instant payment on the other electronic means of payment**, the document highlights that a **direct debit** could be replaced by an instant payment request, as the payment due date can be set exactly as the execution date if (and only if) both the payee and the payer are reachable with instant credit transfers. As for **cards**, the EC document suggests that substitution of payment cards with instant payments could be observed once the latter become accepted more widely by merchants through the adoption of standardized QR codes and provided, however, that the customer experience is easier and faster than with a payment card. Whether instant credit transfers would or should replace **standard credit transfers** remains, according to the EC document, a valid and pending question.

The EC document concludes that a full adherence to SCT Inst and reachability of counterparties at the EU level are preconditions for any further uptake of instant payments. For example, a limited adoption of an instant payment mechanism, be it at domestic or European level, means that PSPs which send outgoing payments instantly are likely to receive some of the incoming payments with a few days delay. This absence of immediate reciprocity forces PSPs to pre-fund part of the instant payments requests they receive, incurring significant costs that could be avoided if there was a 100 percent reachability. Furthermore, the document explains that a 100 percent uptake of instant payments would lead to greater economies of scale and PSPs would also be expected to benefit from the lower average cost per instant payment transaction, which would improve the return on their initial investments in the instant payment infrastructure.

The European Commission's Instant Payments: Current and Foreseeable Benefits paper cites data from ACI's Prime Time for Real-Time 2021 report.

Monica is founder and managing director of Trust EU Affairs and can be reached at monacom@trusteuaffairs.com

Monica Monaco
Founder & Managing Director, Trust EU Affairs

Based in Brussels for the past 18 years, Monica is the founder and managing director of TrustEuAffairs. She is a member of the Society of European Affairs Professionals (SEAP) since 2004, and served as a member of the SEAP Board from 2012 to 2015. Monica is a member of the Europol Virtual Currencies Taskforce and also a member of the European Commission Payment Systems Market Expert Group (PSMEG). Monica has been Senior Manager for EU Regulatory Affairs in the Legal Department of Visa Europe for more than ten years, responsible for relations with the European Commission, Parliament and Council, as well as with various national regulators. Before joining Visa Europe she worked as a consultant for both Andersen, Deloitte & Touche and the OECD in Paris, as well as the Council of Europe in Strasbourg, dealing with a variety of financial services matters. Monica can be reached at: monacom@trusteuaffairs.com