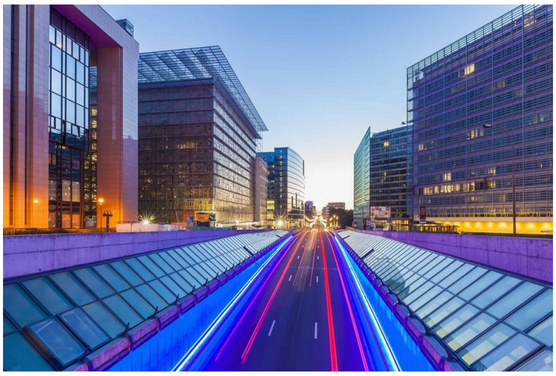
ACI Webinar About the EU Instant Payments Legislation – Redrawing the Payments Landscape



CENTRAL INFRASTRUCTURE, FINANCIAL INSTITUTIONS, ACI ENTERPRISE PAYMENTS PLATFORM, BANKING

On the 29th of November 2022, ACI organized a webinar to discuss the European Commission's proposal for a Regulation on Instant Payments (IPs Regulation). It was hosted by Craig Ramsey, Head of Real-Time Payments, Banking, ACI Worldwide, who was joined by Audrius Pranckevicius, Policy Officer, Payment Services, European Commission, Jérôme Raguénès, Director of Digital, Payments and Operational Resilience, French Banking Federation (FBF), and Somya Patnaik, Global Solutions Lead Real-Time Payments, ACI Worldwide.

Craig Ramsey introduced the webinar with the notion that instant payments prove to be not only beneficial to the payments ecosystem, but also to economic growth and better use of liquidity.

Audrius Pranckevicius explained that the economic benefits of instant payments can only accrue if they are used widely. Regrettably, their uptake in the EU is only 13% for the time being, and this although the technical infrastructure has been in place for years and settlement of instant payments is also possible on a pan-European scale thanks to TARGET Instant Payment Settlement (TIPS). Moreover, while the uptake of instant payments in seven European member states is above the average, in other member states it does not even pass the 1% mark. He added that there are four key obstacles that significantly impact the uptake of instant payments:

The economic nature of payments as a network industry: If only some payment service providers (PSPs) voluntarily provide instant payments, this does not encourage all PSPs to participate in the network to invest. Currently, one-third of PSPs in the EU still do not offer instant payments; a coordinated effort is needed.

The concern about fraud in instant payments and liability of PSPs: In authorized push payment (APP) scams, the payer unknowingly transfers the funds to the account of the criminal, and as a result they incur losses. The liability framework is such that PSPs are not liable if they execute the transaction based on the International Bank Account Number (IBAN) information provided by the payer. The level of APP scams is high, and the fraud rate for cross-border credit transfers is particularly concerning, being 20 times higher than regular credit transfers.

The screening of instant payments and compliance with sanctions: The most common methods are based on transaction screening, which leads to the rejection of many instant payment transactions and is consequently not very efficient.

The pricing of instant payments: Several PSPs tend to price instant payments as a premium feature compared to regular credit transfers. This results in limiting the widespread uptake of instant payments.

There consequently are four key measures in the instant payments regulation that address such obstacles:

An obligation to require PSPs that offer regular credit transfers in euros to also offer instant payments in euros

Instant payments in euros must not be priced at a higher rate than regular credit transfers in euros

In terms of consumer protection, PSPs must check the IBAN and the name of the beneficiary as provided by the payer and inform the payer before they authorize the transaction about any discrepancies.

A requirement for all PSPs to use a harmonized new procedure for the sanction screening of instant payments, which consists of at least daily checks.

Depending on the obligation, the deadlines vary from six months to three years, taking into account the character of the obligation and the level of development of individual member states. The obligation to receive instant payments will apply six months after entry into force, while the obligation to send instant payments will apply 12 months after entry into force of the regulation.

Jérôme Raguénès explained that, in France, there are several means of payment; hence instant payments will have to find their place in this large ecosystem. However, the uptake of instant payments in France has seen a strong spike, with around 7% of all credit transfers being instant payments.

Moreover, all payment accounts in France are ready to receive instant payments in euros, and instant payments are accessible for all customers. As for the pricing of instant payments, the current pricing level is due to a huge investment in the infrastructure and security of payments, and it is necessary to protect the ability of PSPs and banks to maintain this infrastructure and to drive innovation forward. The French Banking Federation has consequently two main remarks concerning the Commission's proposal:

The business model: Instant payments must not be priced at the same price as regular credit transfers, as the costs of offering instant payments are higher and there are operational and risk mitigation costs involved.

Principles of the EU market economy: Competition and free market principles must apply in Europe. Therefore, the pricing of instant payments should be determined by market competition, not by regulation.

Other relevant aspects include:

Sanctions screening: The European Commission's idea to move from transaction-based screening to client database screening is a step in the right direction

Liability mechanism: Clarification should be provided concerning the liability of PSPs that execute a transaction and make funds available to a sanctioned entity due to another PSP's failure to carry out the correct verification of their client database.

Operational changes and compliance impact: Banks should analyze the operational impacts of database updates to ensure that sanctions are properly applied prior to executing transactions.

Instruments covered: Banks will continue to screen regular credit transfers and direct debits on a per-transaction basis, but a client database screening is necessary for instant payments.

Jérôme Raguénès added that successful use cases in instant payments include payments with social media, QR code payments, business-to-business (B2B) request for payment, direct debit and offline payments.

Craig Ramsey explained that, while the proposal for a regulation on instant payments, as well as the IBAN verification that the regulation proposes, are welcome, the timeline to implement the obligations might not be entirely realistic. Furthermore, the nature of the instant payments ecosystem demands increased resources being used. Hence, this may need to be reflected in their pricing. The most relevant use cases are social media, QR code payments, B2B request for payment, direct debit and offline payments. It is also important to determine which actors have been driving the growth of the global instant payments market. In France, around 97% of the uptake of instant payments is driven by Tier 1 banks, while only 3% is driven by Tier 2 and 3 banks, and even less so by fintechs. In the U.K., the number for Tier 1 banks is 69%. In 2026, that number is not expected to change in France when accounting for the effects of EU legislation. In other countries, such as Brazil and India, while Tier 1 banks dominate the landscape today, fintechs are instead expected to be more competitive and also to drive innovation. Similarly, the U.S. will have a very diverse instant payments landscape by 2026 compared to the EU, where Tier 1 banks will still dominate the landscape.

Somya Patnaik explained that today, India is the world leader in instant payments. The population with access to banking services increased significantly in recent years, with up to 80% of the 1.4 billion population having access to a basic account. Moreover, India also has the world's largest digital identity program, Aadhaar, while smartphone usage has increased to unprecedented extents. Unified Payments Interface (UPI), India's digital payments platform, processed 7.31 billion financial transactions in October 2022, and settled value in excess of USD 145 billion.

Furthermore, UPI was the first interoperable platform where one could link any bank account to any UPI app and the use of a single interoperable UPI PIN that was interoperable between apps made it easy for consumers to pick up such a payment method. Moreover, the open UPI model made communication between the participants much simpler and the very easy-to-use interface for users increased participation and adoption. In terms of benefits:

For consumers: UPI provides round-the-clock availability, enhanced security, convenience, intuitive interfaces and multiple use cases

For regulators: UPI drives financial inclusion, it is a direct means of delivery of citizen welfare, and provides increased transparency in transactions and a better tax compliance

For merchants: UPI allows merchants and businesses to benefit from both reduced infrastructure costs and transaction costs

For banks: UPI increases cost efficiency and digital channel adoption. Banks were able to attract and onboard new customers at a very low cost compared to what they do traditionally, while partnerships opened up new avenues and new streams of revenue

For fintechs: UPI drives innovation in digital payments and fintechs expand the payments ecosystem beyond the traditional one.

Finally, Somya explained that a significant takeaway from the Indian market is the multitude of use cases introduced, with a particular importance for QR codes.

Audrius Pranckevicius concluded by saying that the proposal includes a provision explaining that member states will have to notify the Commission of the measures that they will include in national law that can be applied in case national operators do not comply with the regulation. Moreover, the argument that customers would not be interested in such a payment method is not valid in the opinion of the Commission, as consumer organizations have made it clear that consumers want instant payments. They do not see them as a premium feature. The Commission consequently urges those market participants who are not ready to offer instant payments to get ready to do so in the near future.

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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