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**IMPACT ASSESSMENT REPORT**

*Accompanying the document*

**Proposal for a  
REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL  
amending Regulations (EU) No 260/2012 and (EU) No 2021/1230 as regards instant  
credit transfers in euro**

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## Glossary

<i>Term or acronym</i>	<i>Meaning or definition</i>
AML	Anti-Money Laundering (Directive (EU) 2015/849 of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing)
API	Application Programming Interface (software allowing communication between different applications or systems)
APP fraud	Authorised Push Payment fraud, a type of fraud in which the payer (an individual or a business) is tricked into authorising a payment to a fraudster posing as a genuine payee
CBPR	Cross-Border Payments Regulation (Regulation (EU) 2021/1230 on cross-border payments in the Union (codification))
CEGBPI	Commission Expert Group on Banking, Payments and Insurance, a group in which the Commission consults experts appointed by Member States
Credit transfer	Payment service as defined in Article 4(24) of Directive (EU) 2015/2366 (PSD2) and in Article 2(1) of Regulation (EU) No 260/2012 (SEPA Regulation)
CSM	Clearing and Settlement Mechanism
EBA	European Banking Authority
EFIP	European Forum for Innovation in Payments, a platform for exchange of views by payments stakeholders set up by the European Central Bank and the European Commission to contribute to increased economic efficiency and a deeper Single Market by fostering the development of an integrated, innovative and competitive EU market for retail payments
EPC	European Payments Council, a private law association of banks and other payment service providers, founded in 2002, which functions as a decision-making and coordination body of the European payments industry, and with the main task of the development of SEPA
GDPR	General Data Protection Regulation (Regulation (EU) 2016/679 of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data)
ICS	International Card Schemes (e.g., American Express, Discover, Mastercard, Visa, etc.)
IP	Instant payment, a credit transfer which arrives on the payee's account within ten seconds of the sending of a payment order by the payer

PISP	Payment Initiation Service Provider, a PSP offering the service of payment initiation, as defined in Article 4(15) of Directive 2015/2366 (PSD2)
Payment scheme	A single set of rules, practices, standards and/or implementation guidelines agreed between payment service providers (PSPs) for the execution of payment transactions across the Union and within Member States, and which is separated from any infrastructure or payment system that supports its operation
PSP	Payment Service Provider, a provider of payment services as defined in Annex I of Directive 2015/2366 (PSD2), such as a credit institution, payment institution or electronic money institution
Point of Interaction (PoI)	A place where goods or services are purchased from a merchant, either a physical point of sale (a brick and mortar shop, self-service terminals, etc.) or an e-commerce website
P2P	Person to Person (payments)
PoI solutions	Payment solutions (e.g. mobile phone application, instant messaging system) which allow initiation of IPs at PoI
Point of Sale (PoS)	A physical Point of Interaction (in a brick and mortar shop, self-service terminals, etc., but not in ecommerce)
PSD2	Second Payment Services Directive (Directive (EU) 2015/2366 of 25 November 2015 on payment services in the internal market)
PSMEG	Payment Systems Market Expert Group, a group of stakeholders consulted by the Commission composed of representatives of payment service providers and users, as well as payments experts
RPS	Retail Payments Strategy, Commission Communication COM/2020/592 final of 24 September 2020 on a Retail Payments Strategy for the EU
SEPA	Single Euro Payments Area (Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009)
SCT Inst.	SEPA Instant Credit Transfer Scheme
SFD	Settlement Finality Directive (Directive 98/26/EC of 19 May 1998 on settlement finality in payment and securities settlement systems)
Uptake	The percentage of euro IPs in all euro credit transfers effected in the EU by volume

## 1. INTRODUCTION

### 1.1. What are instant payments?

Instant Payments (hereafter IPs) are a form of credit transfer, whereby the funds pass from the account of the payer to that of the payee in a matter of seconds, at any time, day or night, and any day of the year. This distinguishes IPs from regular credit transfers<sup>1</sup>, where the funds must be credited to the payee by the end of the business day following the day when the payer ordered the transaction and the transaction amount was debited from the payer's account. IPs are also distinct from card payments, in the case of which it can take up to 48 hours for funds to be credited to the account of the payee and where a payment guarantee is usually provided to the payee (e.g. a merchant) for this interim period. IPs are a major technological innovation in payments, as they allow releasing funds that are locked in the 'back-office' of the financial system and making them immediately available to end users - citizens and businesses in the EU - for consumption and investment.

IPs also offer opportunities for EU banks and fintechs to develop new Point of Interaction (PoI) solutions (e.g. mobile payment applications on smartphones), which would contribute to increasing the choice of available payment means, in particular for cross-border payments at PoI. Such new payment solutions have the potential to provide convenient and efficient additional alternatives to (i) cash in person-to-person payments (P2P, e.g. splitting a bill in a restaurant); (ii) cash and payment cards in physical shops, and (iii) payment cards in e-commerce.

IPs are available in approximately 60 countries worldwide and are under development in others. In the EU, the infrastructure for IPs in euro and in all other EU currencies already exists and is used by EU payment service providers (PSPs) to a varying degree. This infrastructure firstly consists in a set of harmonised rules and procedures (a 'Scheme') agreed by PSPs, allowing them to process payments instantly. The only scheme for euro IPs is called SEPA Credit Transfer Instant Scheme (SCT Inst. Scheme), launched in November 2017, managed by the European Payments Council (EPC). Most schemes for other EU currencies have been largely based on the EPC scheme, with a licencing agreement<sup>2</sup>, and are thus very similar. The second relevant infrastructure is the settlement system: PSPs have access to various payment settlement systems, such as the ECB's TARGET IP Settlement service (TIPS), which ensures pan-European settlement of euro IPs. Instant settlement systems for other EU currencies also exist, although some non-euro IPs are settled or will soon be settled in TIPS<sup>3</sup>.

Within the EU the provision and use of euro IPs remains patchy. In certain Euro area Member States, euro IPs are very popular, in particular for payments between private

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<sup>1</sup> For the purposes of this impact assessment, the expression "regular credit transfers" is used to refer to credit transfers executed within the time limits stipulated in Article 83 of PSD2.

<sup>2</sup> Bulgaria, Croatia, Denmark, Hungary, Romania and Sweden (see also Section 6.1 and Annex 6)

<sup>3</sup> Annex 6 provides details on the functioning of SEPA instant credit transfers as well as IPs in other currencies (in the EU and globally).

persons (P2P transfers). In other Euro area Member States only certain PSPs can send/receive euro IPs and the usage is limited. Finally, in yet other Euro area Member States and all non-Euro area Member States, euro IPs are practically not available.

IPs in national currency other than euro are useful for domestic transactions within one Member State. However, it is not possible to use them to send and receive cross-border IPs between any two Member States (within or outside the Euro area). Being able to make and receive cross-border payments within the EU as easily as domestic payments is at the core of the integration of the internal market for retail payments. Thus, only IPs in euro are the subject of this impact assessment.

The growth in the number of PSPs offering euro IPs has been too slow since the end of 2018 and the volume of euro IPs currently stands at 11% of all euro credit transfers. IPs can bring significant benefits to citizens and businesses in the EU (summarised in box 1 and with more detail in section 2 below). These are however impeded by the slow roll-out of euro IPs in the EU. Against this background, this impact assessment examines whether there is a need for EU legislative action and analyses the impacts of available solutions.

#### BOX 1

##### **Benefits of IPs**

- Convenience for citizens and businesses, receiving due money instantly
- No longer any need for a (costly) payment guarantee for merchants
- Release of billions of euro locked in the financial system for productive use ("float")
- Improved cash-flow for businesses and public administrations
- Stimulus for innovation in the development of new solutions for merchant sales (PoI) and electronic person-to-person payments
- Potential cost savings for merchants which could be passed on to consumers
- Faster dispatch of purchased goods (compared to when payment is made by regular credit transfer)
- Greater opportunities for payment fintechs to deliver mobile payment apps
- More choice among payment means / services, particularly with respect to cross-border payments at PoI (indirect benefit, subject to emergence of IP-based PoI solutions)
- Increased resilience of the EU retail payments systems
- Accelerated and improved fiscal receipts and other societal benefits

## **1.2. Political context**

In 2018, in its Communication *Towards a stronger international role of the euro*<sup>4</sup>, the Commission supported IPs as a means to reduce risks and vulnerabilities in retail payments in the EU and increase the autonomy of existing payment solutions.

In its *Retail Payments Strategy for the EU*<sup>5</sup> (RPS), adopted on 24 September 2020, the Commission announced that it would assess whether it is appropriate to prepare an

<sup>4</sup> [https://ec.europa.eu/info/publications/towards-stronger-international-role-euro-commission-contribution-european-council-13-14-december-2018\\_en](https://ec.europa.eu/info/publications/towards-stronger-international-role-euro-commission-contribution-european-council-13-14-december-2018_en)



initiative aiming for a prompt, full uptake of IPs in the EU. The public consultation carried out in the context of the development of the RPS revealed significant support for such an initiative<sup>6</sup>, which was then included in the Commission Work Programme for 2022.

In its ECOFIN conclusions of 22 March 2021<sup>7</sup> the Council noted that “*most domestic payment solutions based on cards or IPs currently do not work across borders, which can constitute an obstacle for cross-border payments in shops and e-commerce*”, considered that “*the lack of interoperability between existing national solutions, schemes and infrastructures, which is also linked to the lack of EU-wide common standards in some areas, contributes to fragmentation in the EU retail payments market*” and in particular highlighted “*the objectives (of the RPS) of promoting the widespread use of IPs.*” Moreover, in its *Conclusions on the EU’s economic and financial strategic autonomy: one year after the Commission’s Communication* adopted on 5 April 2022, the ECOFIN Council referred to the Commission’s intention to present a legislative initiative on IPs in 2022, recalling the objective to “*foster the development of competitive homegrown and pan-European market-based payments solutions*”, and stressing “*the importance of defining and effectively implementing a framework for an independent, efficient, well-functioning, open and autonomous “European payments area.”*”<sup>8</sup>

MEPs from the four largest political groups (EPP, S&D, Greens and Renew) expressed their broad support for the RPS’ focus on the full roll out of IPs in the EU during a FISMA webinar organised on 17 March 2021.

Universal availability of euro IPs is necessary to update and modernise the project of the internal market integration for euro retail payments, branded as the Single Euro Payments Area (SEPA). SEPA strives to allow European consumers, businesses and public administrations to make and receive cross-border payments in euro as easily as domestic payments, and to allow people to use their existing payment account in their home Member State to receive their salary or pay bills between different Member States. The SEPA project was launched in 2002, prompting the European banking industry to create the EPC which, at the request of the European Commission and European Central Bank (ECB), committed to developing, in close dialogue with all stakeholders (including merchants and consumers), harmonised rules and procedures for executing euro payments (so called ‘SEPA schemes’). The SEPA scheme for euro credit transfers was launched in 2008, for SEPA direct debits in 2009 and for the instant version of SEPA credit transfers (IPs) in 2017. Within the EU, the SEPA Regulation<sup>9</sup> requires all credit transfer and direct debit transactions denominated in euro to meet conditions which in practice only the SEPA schemes currently meet. PSP communities outside the EU may also apply to be included in the SEPA geographical scope in order to benefit from a possibility to execute cross-border transactions also outside the euro area more quickly

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<sup>5</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52020DC0592> .

<sup>6</sup> See Annex 2

<sup>7</sup> Conclusions of ECOFIN of 22 March 2021, [pdf \(europa.eu\)](https://ec.europa.eu/finance/press/20210322_ecofin_conclusions_en).

<sup>8</sup> [https://data.consilium.europa.eu/doc/document/ST-6301-2022-INIT/en/pdf?utm\\_source=dsms-auto&utm\\_medium=email&utm\\_campaign=Council+adopts+conclusions+on+strategic+autonomy+of+the+European+economic+and+financial+sector](https://data.consilium.europa.eu/doc/document/ST-6301-2022-INIT/en/pdf?utm_source=dsms-auto&utm_medium=email&utm_campaign=Council+adopts+conclusions+on+strategic+autonomy+of+the+European+economic+and+financial+sector).

<sup>9</sup> Regulation (EU) No 260/2012



and cheaply (if only denominated in euro)<sup>10</sup>. PSPs in all EEA countries and six non-EEA countries (Andorra, Vatican City, Monaco, San Marino, Switzerland, and most recently the UK) have seized the opportunity to join the SEPA geographical scope. Also, plans for Ukraine to join the Scheme to facilitate cross-border payments have been announced recently<sup>11</sup>.

Payment services play a key role among digital financial services, being at the cutting edge of innovation<sup>12</sup>. The full roll-out of euro IPs in the EU would be consistent with initiatives laid out in the Commission's *Digital Finance Strategy for the EU*<sup>13</sup> adopted on 24 September 2020, aimed at promoting digital transformation of finance and the EU economy and removing fragmentation in the Digital Single Market, such as the European Digital ID Wallet or digital euro.

At international level, the G20 targets<sup>14</sup> on payments speed include the objective of having, by the end of 2027, 75% of global retail payments being credited within maximum one hour. The present initiative would contribute to the EU achieving the G20 objectives.

### 1.3. Legal context

Regulation (EU) No 260/2012 (the SEPA Regulation), concerns only two types of payment services (credit transfers and direct debits) denominated in euro. It set a deadline by which all EU PSPs were obliged to offer regular credit transfers and direct debits in euro under the same, harmonised rules. Based on a decision of the European legislators that SEPA should extend to the entire EU, these rules also apply to PSPs in non-Euro area Member States, if they decide to offer credit transfers or direct debits in euro. Those rules were largely based on the schemes developed by the EPC in 2008 and 2009. The 2012 SEPA Regulation did not oblige PSPs to start offering euro IPs as they did not exist at the time, being first launched in 2017.

Directive 2015/2366 on payment services (PSD2) concerns eight types of payment services (credit transfers and direct debits included) in all EU currencies. It sets out, inter alia, rules about the information that PSPs have to give to consumers and about the rights and obligations of payment service providers and users. A review of the application and impact of PSD2 is ongoing and the results are expected in the first half of 2023.

Regulation (EU) 2021/1230 on cross-border payments (CBPR) equalises charges between cross-border payments in euro and the corresponding domestic payments in national currency of an EU Member State, offered by any PSP within the EU. Thus, the

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<sup>10</sup> An alternative to SEPA for cross-border payments is SWIFT payments, which are slower and more costly than SEPA payments. See Annex 9 for more details.

<sup>11</sup> [Ukraine Connects to SEPA - GTInvest \(good-time-invest.com\)](https://good-time-invest.com/ukraine-connects-to-sepa/)

<sup>12</sup> A 2020 Study by Deloitte Financial Advisory Netherlands found that “Digital payments market is the largest segment within the Fintech spectrum and accounts for more than 80% of global Fintech revenues” (see: <https://www2.deloitte.com/content/dam/Deloitte/nl/Documents/financial-services/deloitte-nl-fsi-fintech-report-1.pdf>); Ernst and Young finds that in the US, “Valuations of FinTech firms in the payments space grew at an annual compound rate of 27% between 2016 and 2020” (see: [https://www.ey.com/en\\_lu/banking-capital-markets/how-banks-can-win-at-payments](https://www.ey.com/en_lu/banking-capital-markets/how-banks-can-win-at-payments))

<sup>13</sup> [https://ec.europa.eu/info/publications/200924-digital-finance-proposals\\_en](https://ec.europa.eu/info/publications/200924-digital-finance-proposals_en)

<sup>14</sup> [Targets for Addressing the Four Challenges of Cross-Border Payments: Final Report \(fsb.org\)](https://fsb.org/targets-for-addressing-the-four-challenges-of-cross-border-payments-final-report)

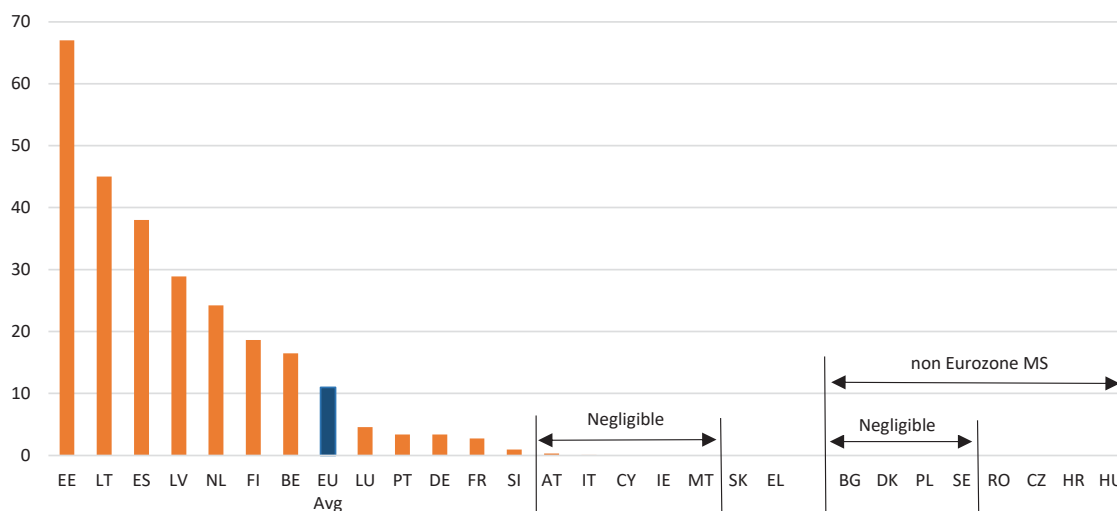
Regulation already requires that PSPs offering euro IPs apply the same charges for a cross-border euro IPs as for the corresponding domestic IPs in national currency (whether euro or otherwise).

## 2. PROBLEM DEFINITION

### 2.1 The problem: insufficient uptake of euro IPs

As of the fourth quarter of 2021, four years into operation of the SCT Inst. Scheme, the estimated uptake of euro IPs<sup>15</sup> was only 10.97%. It varied considerably by Member State, as shown in the chart below.

*Chart 1 - Uptake of euro IPs by volume as % of all euro credit transfers by Member State<sup>16</sup>*



Thus, only around one in ten euro credit transfers effected in the EU is an IP. In terms of overall transferred value, the percentage is even lower, only around 2% (EUR 1.6 trillion) in 2020.<sup>17</sup> The current uptake level reflects mostly the high level of domestic euro IP transactions in some Member States.

Importantly, the dispersion of the uptake of euro IPs across Member States is markedly wide, underscoring the untapped potential to achieve a considerably higher uptake at European level. Whereas in May 2021 the uptake of euro IPs in five Member States exceeded the EU average significantly (i.e., Estonia 67%, Lithuania 45%, Spain 38%, Latvia 29% and the Netherlands 24%); in a number of other Euro area Member States (France, Portugal, Germany<sup>18</sup>, Slovenia) the uptake was only between 1% and 4%, it was negligible in Austria, Italy, Cyprus, Ireland, and Malta, and non-existent in Greece and Slovakia.

<sup>15</sup> The percentage of euro IPs in all euro credit transfers effected in the EU, by volume

<sup>16</sup> Estimates for May 2021 based on data provided by National Payments Committees (EFIP questionnaire). EU average represents the uptake for Q4 2021 (EPC estimate). For Greece, Slovakia, Romania, Croatia, Hungary and Czechia, there were no PSPs adhering to SCT Inst. Scheme in May 2021. Uptake for Belgium reflects only IPs processed in the main domestic retail payment system.

<sup>17</sup> Source: ECB, National Payments Committees, European Commission calculation.

<sup>18</sup> The current level of uptake in Germany reflects the fact that approximately 50% of all credit transfers are submitted by corporate customers in batch mode and, therefore, are not processed as IPs. Hence, the uptake mainly reflects IPs initiated by users via online banking or mobile banking applications.

Considered as a percentage of all electronic payment transactions in the EU (i.e. not only credit transfers but also including other payment means), the share of IPs is even lower. Even in Member States with relatively high uptake of IPs, usually carried out via dedicated online or mobile banking apps such as Bizum in Spain, retail purchases at PoI using electronic means of payment remain dominated by card-based payments. Card transactions represented approximately 50% of all non-cash payment transactions in the EU in 2020.<sup>19</sup> In 2018, the two most commonly used International Card Schemes (ICS), Visa and Mastercard, handled 69% of card payment transactions in Europe. Moreover, ICS card payments constitute almost all of the cross-border card payments in the EU.<sup>20</sup>

More information on the shares of various non-cash payments instruments in the EU payments market can be found in Annex 7.

## **2.2 Consequences of the problem**

Two consequences are discussed in this section: (i) unrealised benefits and economic efficiency gains from the wider use of euro IPs, and (ii) limited choice of means of payment at PoI, especially cross-border. Regarding these consequences, it is important to distinguish two types of situations in which IPs can be made. The first situation is where IPs are initiated by the payer (consumer or corporate user) through online banking or in a branch, for a variety of reasons (P2P payments between individuals, payment of invoices etc.). The second is IPs at PoI made for the purpose of consumers purchasing goods or services from a merchant; they can take place online or in a physical point of sale.

The first consequence discussed below concerns both situations, while the second applies particularly for IPs at PoI. The development of cross-border solutions for making payments at PoI (such as mobile payment applications) or the interoperability of existing national solutions is facilitated, but not directly dealt with, in the present initiative. The wider availability and use of IPs, which the present initiative aims to achieve, should, together with other relevant initiatives discussed in Section 7.3, act as a catalyst and stimulant for the development of such PoI payment initiation solutions.

### **2.2.1 Unrealised benefits and efficiency gains from IPs**

#### *Macro level unrealised benefits*

Funds which are in transit in a payment system between the payment accounts of the payer and the payee (known as 'float') are not available for spending or investment by payment service users. It is estimated that at any given day, an amount of 187 billion euro is locked in the financial system in this way, using regular euro credit transfers or cheques<sup>21</sup> (see Annex 8 for further analysis of payment float and impacts of its reduction). If IPs were to become universally used, these funds would become immediately available for economic use, either consumption or investment, thus contributing to growth.

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<sup>19</sup> Source: ECB. See Annex 7.

<sup>20</sup> Source: ECB, [Card payments in Europe – current landscape and future prospects: a Eurosystem perspective \(europa.eu\)](https://www.ecb.europa.eu/press/pr/2019/09/20190919_card_payments_en.html).

<sup>21</sup> Source: ECB, National Payments Committees, Commission calculation. As shown in Annex 7, the annual value of regular euro credit transfers and cheques in 2020 was EUR 68 161 billion, equivalent to average daily float of non-settled funds of EUR 187 billion.

### *Unrealised benefits for EU citizens*

Citizens can benefit from IPs directly, in their capacity as senders or beneficiaries of credit transfers, and also indirectly, in so far as other economic actors, such as merchants, fintechs or PSPs, can pass on to them some benefits from IPs which accrue to them, or use IPs for the development of new goods and services.

As regards the direct benefits for citizens, as payers or payees of credit transfers, the growing digitalization of modern societies has led consumers to expect everything to be available in real time. This behavioural change concerns also payments. It is no longer commonly accepted that a bank transfer can take up to two business days to be credited to the beneficiary<sup>22</sup>, not counting additional delays due to weekends and public holidays. As society moves towards real-time, digital ways of interacting in all spheres of life, EU citizens expect payments to match this new reality.

Thanks to the near immediate speed (less than 10 seconds), with which the funds are transferred, users of IPs can see their real-time account balance before and after making a payment (helping with better management of finances and avoiding falling into overdraft), or meet last-minute financial obligations (e.g. pay a forgotten bill in time to avoid late payment penalty), which is in particular important for low-income households.

This expectation of immediacy is underlined by the consumer feedback to the open public consultation on IPs<sup>23</sup>. All consumer organisations and an overwhelming majority of individual consumers who responded expect credit transfers to be credited to the beneficiary within seconds (88%) and at any time, i.e., 24/7/365 (90%). The demand for round-the-clock credit transfers is confirmed by the fact that already now, as many as 33% of all euro IPs are requested by payers between 6pm and 6am, time during which regular credit transfers are not processed by PSPs<sup>24</sup>. The same trend can be observed outside the Euro area.<sup>25</sup>

The call of the European consumer organisation BEUC on the industry and regulators “*not to promote slow finance*”<sup>26</sup>, and to ensure that IPs “*become the new normal for credit transfers*” and are “*adapted to different use cases, such as payment in shops*”<sup>27</sup> reflects the expectations of EU citizens when it comes to payments.

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<sup>22</sup> PSD2 requires credit transfers to be effected by the end of the next business day which can be extended by another business day for paper-initiated transfers.

<sup>23</sup> [IPs \(europa.eu\). See Annex 2 on public consultation.](https://europeanpaymentscouncil.eu/sites/default/files/infographic/2022-02/SCT%20Inst%20today%20%20%281%29.pdf)

<sup>24</sup> <https://www.europeanpaymentscouncil.eu/sites/default/files/infographic/2022-02/SCT%20Inst%20today%20%20%281%29.pdf>

<sup>25</sup> For example, the data on the volume of submitted (and instantly settled) IP in PLN orders in the Express Elixir system (in Poland) shows that in the first quarter of 2021 48,7% of payment orders were credited to the payee between the hours of 16:00 and 8:00 and 19.6% over weekends (when regular credit transfers are not credited to the payees). The corresponding figures for another Polish IP settlement system, BlueCash, were 38.1% and 11,3%, respectively. Source: Informacja o rozliczeniach i rozrachunkach międzybankowych w I kwartale 2021 r. (nbp.pl)

<sup>26</sup> FISMA webinar on IPs: [Webinar: Exploring the potential of IPs for EU consumers and businesses | European Commission \(europa.eu\).](https://europeanpaymentscouncil.eu/sites/default/files/infographic/2022-02/SCT%20Inst%20today%20%20%281%29.pdf)

<sup>27</sup> [A retail payments strategy for the EU | www.beuc.eu.](https://www.beuc.eu)

IPs can also enable the governments and public authorities to provide support to households in crisis situations in near real time, including on weekends (e.g., see Annex 6 regarding experiences in Australia).

The indirect benefits to consumers of IPs would arise from the availability of more efficient and affordable payment solutions available to merchants, on the hypothesis that PoI solutions would be developed to allow the use of IPs for purchase of goods and services, including cross-border. There are concrete examples of industry efforts to set up such solutions based on IPs<sup>28</sup>. Currently, merchants do not usually receive real-time electronic payment for goods and services and consider fees for acceptance of ICS payment cards to be high (see following section). Merchants' potential cost savings resulting from more affordable payments could be passed on to consumers in the form of lower retail prices, while the improved cash-flow enabled by IPs could enable merchants to improve services to consumers, such as expedited refund services.

#### *Unrealised benefits for EU merchants*

The full realisation of the benefits of IPs to merchants are to a large extent contingent on the development of IP-based PoI solutions by the market, which would work for both domestic and cross-border transactions. The wider use of IPs which the present initiative aims to achieve is expected to trigger the development of such solutions, or to promote interoperability of the existing ones, within a short timescale.

The potential benefits to merchants from using IPs fall into two categories: higher speed and lower cost of receiving payments for goods and services sold.

As regards speed, with the currently available means of payment (cash, cards, cheques, regular credit transfers), liquidity management for merchants is a major issue and can hinder management of stock and other assets. Currently, the only way the merchant can send goods or provide services immediately after payment is by means of card payment schemes or Payment Initiation Service Providers (PISPs) offering a payment guarantee or similar service to the payee, although actual funds reach the merchant's bank account on average one to two days later. If merchants were to receive the funds immediately on their accounts, it would improve their liquidity and cash flow management, and enable them to, for example, immediately re-invest the funds received from customers in restocking, buying the necessary materials, and so on.

As regards costs, 92% of merchant respondents to the open public consultation stressed the importance of the potential cost savings that would result from lower fees on IP PoI solutions compared to other alternatives (e.g. cards). The payment means currently widely used with merchants all have very high costs:

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<sup>28</sup> The European Payments Initiative (EPI) aims to launch a digital payment wallet which would run on IPs and, based on information available as of April 2022, would be offered in at least 5 Member States, including cross-border (Germany, France, Belgium, the Netherlands, Spain); <https://www.epicompany.eu/>; EU PISPs have been investigating the setup of PoI solutions (including in physical shops) based on IPs, called European Retail Payments Framework (ERPF); <https://www.etppa.org/news>.

- Cash comes with substantial costs related to theft, human error, handling (need to manually reconcile cash payments at the end of the day); transporting and depositing it safely, etc.<sup>29</sup>;
- Cards (in particular provided by ICS), as well as ICS-based mobile payment applications are expensive for merchants to accept. According to merchants, the costs associated with accepting ICS cards have been increasing due to the increasing scheme fees (see section 2.2.2). ICS-based mobile payment applications may result in higher merchant fees than regular card payments as they can add their own margin on top of interchange and scheme fees and acquirers' margins. For instance, PayPal merchant fees can reach up to 3% of the transaction value processed<sup>30</sup>. According to a recent research of the Irish and UK markets, costs are among the top three concerns for merchants associated with card payments<sup>31</sup>.
- Cheques are by far the most expensive payment instrument still in use in several European countries (e.g., France, Italy, Spain, Portugal, Malta): 1 386.4 million cheques were issued in the euro area in 2020 (and 1 387.4 million in EU27), with an estimated average cost to the society of EUR 3.55 per transaction, compared to EUR 1.92 for credit transfers<sup>32</sup>. Moreover, cheques cannot be used in other Member States as there is no cross-border mechanism to settle them.

The potential for cost savings for merchants resulting from the use of IP-based PoI solutions is confirmed by other countries' experience. For example, the Brazilian PoI solution based on IPs, PIX (see Annex 6) costs an average of 0.22% of a transaction's value for merchants, whereas debit cards cost slightly above 1% and credit cards reach 2.2%.<sup>33</sup>

#### *Unrealised benefits for corporate users related to liquidity management*

Similarly to merchants, all corporates can benefit from better liquidity management as a result of receiving payments instantly instead of with a delay of hours or even days. Studies show that over 50% of payments to EU companies are delayed by 10 days or longer<sup>34</sup> and that the issue is in particular acute for SMEs as they tend to get paid later than large companies. 95% of SMEs in Western Europe and 89% in Eastern Europe say that they are paid late.<sup>35</sup> While these delays are first and foremost caused by late payment by debtors, the slower processing of multiple successive regular credit transfers by PSPs could further exacerbate the problem of late payment to an ultimate beneficiary at the end of a long supply chain. IPs or IP-based solutions would not remove the root cause of the delays, but would contribute to mitigating their impacts.

<sup>29</sup> Study by Fidelis Consulting; <https://op.europa.eu/en/publication-detail/-/publication/735d5b9d-0c5e-11ec-adb1-01aa75ed71a1/language-en/format-PDF/source-228716981>.

<sup>30</sup> <https://ec.europa.eu/competition/publications/reports/kd0120161enn.pdf>.

<sup>31</sup> [TrueLayer Blog | 5 reasons the checkout is changing – ecommerce payments after the pandemic](#).

<sup>32</sup> A third of cheque costs and half of credit transfer costs are attributable to merchants. [The social and private costs of retail payment instruments: a European perspective \(europa.eu\)](#).

<sup>33</sup> [BIS Bulletin no.52: Central banks, the monetary system and public payment infrastructures: lessons from Brazil's Pix](#)

<sup>34</sup> [https://ec.europa.eu/growth/smes/sme-strategy/late-payment-directive\\_en](https://ec.europa.eu/growth/smes/sme-strategy/late-payment-directive_en)

<sup>35</sup> Business-to-business transactions: a comparative analysis of legal measures vs. soft-law instruments for improving payment behaviour, VVA, Milieu, 2018; [ET0118678ENN.en.pdf](#).



As a result of delays in the availability of funds to the beneficiary, an average of 63% of businesses in the EU maintain a cash contingency to cover the time it takes to receive payments<sup>36</sup>. The relevance of this issue was confirmed by the majority (77%) of retailer respondents to the open public consultation who noted the importance of ensuring instantaneous availability of funds 24 hours a day, any day of the year. Similarly, 77% of all respondents to the consultation thought that IPs would enable corporates to manage their cash flows more efficiently.

#### *Unrealised benefits for Payment Service Providers and payment fintechs*

Under-utilisation of IPs can lead to considerable untapped gains for EU PSPs. On the eve of the development of the SCT Inst. Scheme, the EPC, which represents the EU PSP community, stated that *“Payment Service Providers (PSPs) could use their instant payment infrastructure (where available or planned) as a springboard to develop other 24/7/365 financial services and products to serve their customers better and attract new clients”*<sup>37</sup>. In a similar vein, ECB argued that *“since the early announcement of IPs, it has been argued that the main economic incentives for PSPs to bear their investment cost is to strengthen their competitive position and to introduce cost efficiencies by replacing existing payment instruments that are more costly, e.g. cheques”*<sup>38</sup>.

90% of respondents to the open public consultation on the provider side (PSPs, technical service providers, payment systems) who expressed their opinion on the matter considered that IPs could positively impact PSPs’ ability to preserve their existing customer base, while 88% thought that IPs could help them attract a larger customer base. Moreover, without a reduction of the volumes of cash and cheques usage thanks to wider use of IPs, PSPs will continue to incur significant cash and cheque management costs. A study conducted by Deloitte<sup>39</sup> showed that having more IPs would lead to a significant decrease in the volume of cheque transactions per capita. Hence, given that 1.4 billion cheques were issued in the Euro area in 2020, a full substitution of cheques with IPs could potentially lead to up to EUR 2 billion in annual savings for PSPs.<sup>40</sup> Those substantial savings would be in addition to benefits for society arising from elimination of losses arising from the absence of a payment guarantee on cheques and the costs of the various procedures required for the beneficiary to be credited.<sup>41</sup>

Other potential benefits for PSPs of wider use of IPs would be increased opportunities to innovate thanks to greater economies of scale for developing new payment services and PoI solutions, based on IPs. The ECB observes that combined with the development of mobile payment services, IPs are an innovation providing a competitive technology in

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<sup>36</sup> Fidelis Consulting study; <https://op.europa.eu/en/publication-detail/-/publication/735d5b9d-0c5e-11ec-adb1-01aa75ed71a1/language-en/format-PDF/source-228716981>.

<sup>37</sup> EPC Report to the ERPB on Instant Payments, 4 June 2015. Available [here](#).

<sup>38</sup> [Are instant payments becoming the new normal? A comparative study \(europa.eu\)](#). (hereafter ECB 2019)

<sup>39</sup> Economic impact of real-time payments, July 2019 ([deloitte-uk-economic-impact-of-real-time-payments-report-vocalink-mastercard-april-2019.pdf](#)).

<sup>40</sup> The ECB has estimated that the cost for the society of a cheque transaction is EUR 3.55 (2/3 of which attributable to PSPs), compared to the cost of a credit transfer of EUR 1.92 (50% of which attributable to PSPs). [The social and private costs of retail payment instruments: a European perspective \(europa.eu\)](#).

<sup>41</sup> 1.4 million French citizens were registered on the “Fichier Central des Chèques” for having issued cheques without provision in 2017. Statistics from Banque de France, 21 December 2018.



the race for retail payments markets dominated either by cash or cards<sup>42</sup>. Indeed, complementary services (e.g. mobile payment solutions based on IPs) have the potential to provide convenient and efficient alternatives to cash in person-to-person payments (P2P, e.g. splitting a bill in a restaurant); to cash and payment cards in physical shops, and to payment cards when paying online. It should however be noted that developing new solutions based on euro IPs risks being unprofitable if their uptake is too low.

The higher uptake of IPs at EU level would also create greater incentives for EU fintechs and non-bank PSPs, such as Payment Initiation Service Providers (PISPs), to engage in developing IP-based PoI solutions which would work not only domestically but also cross-border (in the same way as ICS work). Today, there are no IP-based PoI solutions that work in shops cross-border (see Annex 6). With the reduced opportunities to expand beyond national markets, EU providers of IP-based solutions cannot gain the economies of scale on the cost side necessary to innovate and compete with the large, international incumbents.

Attempts to develop pan-European solutions have been made by EU providers. In 2020/2021, EU PISPs assessed the opportunity of designing a European Retail Payments Framework (ERPF), with the aim of ensuring availability of pan-European IP solutions in physical shops. The objective of ERPF was to provide solutions for payments in physical shops. However, the limited use of euro IPs was identified by the ERPF's promoters as one of the main stumbling blocks to the project<sup>43</sup>.

Wider use of IPs would also allow PISPs to fulfil their tasks more efficiently. Banks do not have any obligation to provide the confirmation of account balances to PISPs<sup>44</sup>. As part of their service of payment initiation, PISPs must then estimate the likelihood of sufficient funds being available on the payer's account to cover the payment to the retailer. There is therefore always a risk for the PISP that the payment that is initiated based on a regular credit transfer will not be executed. IPs would remedy such risk as the payment execution can be instantly verified. A large EU PISP reported to the Commission that the rate of successful transactions it initiated in 2020 had been 10 percentage points higher for IPs than for regular credit transfers. Greater uptake of euro IPs by PSPs would allow further leveraging on the Open Banking policy enshrined in PSD2, which is aimed at opening up the market for more competition and innovation.

#### *Unrealised benefits for public administrations and others*

Public administrations which collect fees, fines or taxes would benefit from improved cash flow management similarly to merchants and corporates. In addition, a greater take up of IPs could reduce tax fraud and tax evasion, leading to fiscal benefits in the range of EUR 0.25-1.59 billion per year (see section 7.3). With IPs, NGOs and charities could make use of contributions more quickly, which is of particular benefit when funds are urgently needed, particularly in times of international crisis.

#### **2.2.2 Limited choice of means of payment at PoI, in particular cross-border**

As indicated above, the use of IPs for retail (PoI) payments is very limited in the EU, with the exception of certain merely domestic systems, mostly located outside the Euro

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<sup>42</sup> [ECB 2019, report](#) referred to in footnote 35 above.

<sup>43</sup> Bilateral communication between ERPF and Commission services.

<sup>44</sup> Unlike in the case of cards (Art 65 PSD2).

area and limited to payments denominated in national currency<sup>45</sup>. As a consequence, the vast majority of electronic PoI payments, in particular cross-border ones, in the EU are carried out or facilitated by a very limited number of ICS and BigTechs providing mobile payment applications based on ICS, including Apple Pay, Google Pay<sup>46</sup> and PayPal, except for national card transactions in Member States with domestic card schemes in place. Obstacles to access to certain technologies developed by ICS can make entering the card market for cross-border payments difficult for new players. For example, some market players allege that they have difficulties in using the ICS' contactless 'kernel'<sup>47</sup> in physical shops, which is necessary for offering contactless card payments and which, for cross-border payments in Europe, is deployed by ICS.

Compared to electronic payments in physical shops, in e-commerce there are more payment solutions available, as in addition to ICS, solutions based on credit transfers or direct debits are provided by international (e.g., PayPal<sup>48</sup>, Tink, Plaid<sup>49</sup>) and EU providers (e.g., Klarna/SOFORT, Trustly). Card-based solutions offered by ICS or BigTech service providers are most widely accepted by merchants. For example, in 2018 in Europe, over 72% of online merchants accepted PayPal, 54% accepted Visa, and 48% accepted MasterCard. By comparison, Klarna/SOFORT was accepted by 8.6%<sup>50</sup>.

As indicated above, in terms of volume, in 2018, the two most commonly used ICS handled 69% of card payment transactions in Europe.<sup>51</sup> They are continuously expanding to new payment areas, as demonstrated by the purchase of the Swedish Fintech Tink by Visa, or the launch of Visa's own IPs service<sup>52</sup>. This could reduce growth prospects for new entrants and make it harder for them to raise capital<sup>53</sup>.

The current situation creates significant vulnerabilities for the European PoI payments ecosystem in terms of choice, innovation and the emergence of pan-European payment solutions. With the low uptake of IPs, the unique opportunity for EU PSPs (bank and non-banks) and fintechs to develop and promote new pan-European payment solutions, which would not need to rely on the infrastructure provided by the incumbent providers, will remain unrealised.

The limited choice of payment methods, in particular for cross-border transactions, means that merchants have very little, if any, bargaining power when dealing with the handful of available providers, even if accepting those few payment methods is costly for them. A study by EY<sup>54</sup> showed that during the years 2015-2017, scheme charges paid by

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<sup>45</sup> E.g. in Swish in Sweden, Blik in Poland, MobilePay in Denmark.

<sup>46</sup> Currently, Apple Pay and Google Pay can be used to make payments through a debit or credit card.

<sup>47</sup> Kernels are the set of functions that provide the necessary processing of data between a point of interaction and a card/mobile device to perform contact or contactless transactions.

<sup>48</sup> PayPal allows for cross-border payments through ICS or through a credit transfer.

<sup>49</sup> In France, Spain, Ireland and the Netherlands.

<sup>50</sup> Ecommerce News Europe has gathered the data from Dataprovider on payment methods offered by over 900,000 ecommerce websites across Europe in 2018; see [this link](#).

<sup>51</sup> Source: ECB (see [this link](#)).

<sup>52</sup> VisaDirect is based on IPs. Visa is also developing a Request-to-Pay service based on IPs. MasterCard acquired IP service provider BLIK in Poland and NETs account-to-account business in Denmark.

<sup>53</sup> [https://www.bis.org/publ/qtrpdf/r\\_qt2109c.pdf](https://www.bis.org/publ/qtrpdf/r_qt2109c.pdf).

<sup>54</sup> Commissioned by the Commission (DG Competition) from Ernst & Young (available at [this link](#) or [this link](#)). Published 4 August 2020.

acquirers (but later passed onto merchants) for card transactions increased by approximately EUR 560 million and were driven mainly by increases in charges paid to ICS, with particularly steep increases for cross-border transactions. Eurocommerce estimates that ‘merchant service charges’, including scheme fees, interchange fees and acquirers’ margins, increased in the EU from 2015 to 2020, by EUR 876 million in total<sup>55</sup>. Higher fees on card transactions incurred by merchants tend to be passed (fully or partially) onto consumers via higher prices.

Merchants, as well as corporate users, including SMEs, need to be able to make and accept cross-border payments. This is confirmed by the responses to the open public consultation, where merchants stated unanimously (100% of merchants’ responses) that ensuring the ability to accept payments from customers from other Member States was very important. They have therefore little choice but to accept Visa and Mastercard, and mobile wallet solutions incorporating these, since only they enable payments from other Member States.

Greater choice of payment means and providers available in shops, in addition to cards, would also benefit users, including SMEs.<sup>56</sup> Currently, users can only benefit from mobile payment solutions based on IPs in certain domestic markets (see Annex 6). A consumer who is used to making payments by using a popular and widely-acceptable domestic payment solution that allows initiation of IPs at PoI is compelled to rely on another payment instrument, most likely an ICS card or cash, purely for the purpose of making payments in other Member States. This is both inconvenient and costly for the consumer<sup>57</sup>. The pertinence of this concern is confirmed by 85% of consumer respondents to the open public consultation who stated that it was important to be able to pay with IPs not only in their own Member State but also abroad.

A wider uptake of IPs is thus a necessary – although not sufficient in itself - prerequisite for the development of new IP-based retail payment solutions that work at pan-European level, in order to bring more choice of payment methods at PoI.

### **2.3 Problem drivers**

Four key problem drivers hindering the uptake of euro IPs have been identified: (i) insufficient incentives for PSPs to offer euro IPs (market failure); (ii) dissuasive transaction fees for IPs; (iii) high rate of rejected IPs due to false hits in sanctions screening; and (iv) payer concerns about security of IPs (in terms of fraud and errors). Two (i and iii) are on the supply side (affecting PSPs and providers of technical services) and two (ii and iv) on the demand side (affecting consumers and other types of payers). The supply and demand side drivers affect and mutually reinforce each other, and taken together are largely responsible for the insufficient uptake of euro IPs.

There are other factors that could be considered to potentially influence the uptake of IPs and contribute to the apparent differences in the current use of IPs in individual Member States. These could include the competitive environment (such as market structure, entry

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<sup>55</sup> Excluding UK [[CMSPI Zephyre - Scheme Fee Study final.pdf \(eurocommerce.eu\)](#)].

<sup>56</sup> BEUC position paper on the RPS.

<sup>57</sup> Even if there are no ‘per transaction’ costs for consumers related to paying with cards, holding a payment card is not free (annual cardholder fees). In addition, higher merchant fees on card transactions are passed onto consumers via higher prices.

barriers, competitive pressure from non-banks, switching costs, etc.); specific consumer payment preferences (e.g. cultural preferences for cash or cheques), business strategies (such as transaction-based or package pricing for retail financial services), wired and mobile internet penetration (necessary for online or PoI transactions)<sup>58</sup>, etc. Nonetheless, it was concluded that in the current context these factors are either of a secondary importance, do not apply equally in all Member States, or are not in the regulator's control, hence are outside of the scope of the present initiative.

### 2.3.1 Driver 1: Insufficient incentives for PSPs to offer euro IPs (market failure)

As explained in detail in Annex 10, payments are a network industry exhibiting significant economies of scale. Network externalities lead to undersupply, and the resulting unexploited scale economies may prolong higher prices reducing demand that in turn creates disincentives to increase supply. In order to overcome market failures and help the industry reach critical mass, coordinated efforts are frequently taken in payments, either based on industry initiative or by some sort of government intervention.

For an IP transaction to take place, both a payer and a payee need to have a PSP which offers such service. PSPs' decisions to adhere to the SCT Inst. Scheme are, however, impacted by the presence of network externalities. Network externalities occur in a form of circular interaction whereby the more PSPs and users (both payers and payees) of a certain payment method (such as IPs) there are in a network, the more attractive it is for other PSPs to join the network and start offering that payment method. This is, *inter alia*, because a high volume of payments brings a better chance of recouping PSPs' investments necessary to offer that new payment method.

In this regard, three levels of initial investment are needed<sup>59</sup>: a common scheme, a common settlement infrastructure and, finally, investments by individual PSPs. The first two types of investments have already occurred: the EPC launched the SEPA Inst. Scheme in 2017, while the ECB has already ensured the existence of a pan-European settlement infrastructure, TIPS, and its interconnection with national clearing and settlement infrastructures. Therefore, the necessary fixed investment cost for offering euro IPs is now limited to PSPs' individual investments (see Box 2).

However, a high number of PSPs (about one in three) across the EU do not see sufficient incentives to make such investments to join the network, as they deem its current scale, in terms of other participating providers, payments services users and the IP volume, to be too low to justify such investments (see Annex 10 for more analysis of network effects). However, the participation of the vast majority of PSPs offering regular euro credit transfers is a precondition to achieving such volume.

As of February 2022, over four years into the operation of SCT Inst. Scheme, only 2 308 EU PSPs<sup>60</sup> have adhered to it, thereby committing themselves to be able to send and/or receive<sup>61</sup> euro IPs. This represents 66.8% of the 3 454 PSPs in the EU that are able to send and receive 'regular' credit transfers in euro. Within the Euro area, this percentage

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<sup>58</sup> ECB Occasional Paper Series [Are instant payments becoming the new normal? A comparative study \(europa.eu\)](#), Monika Hartmann, Lola Hernandez-van Gijssel, Mirjam Plooi, Quentin Vandeweyer, 2019

<sup>59</sup> As discussed in section 1.1. and Annex 6.

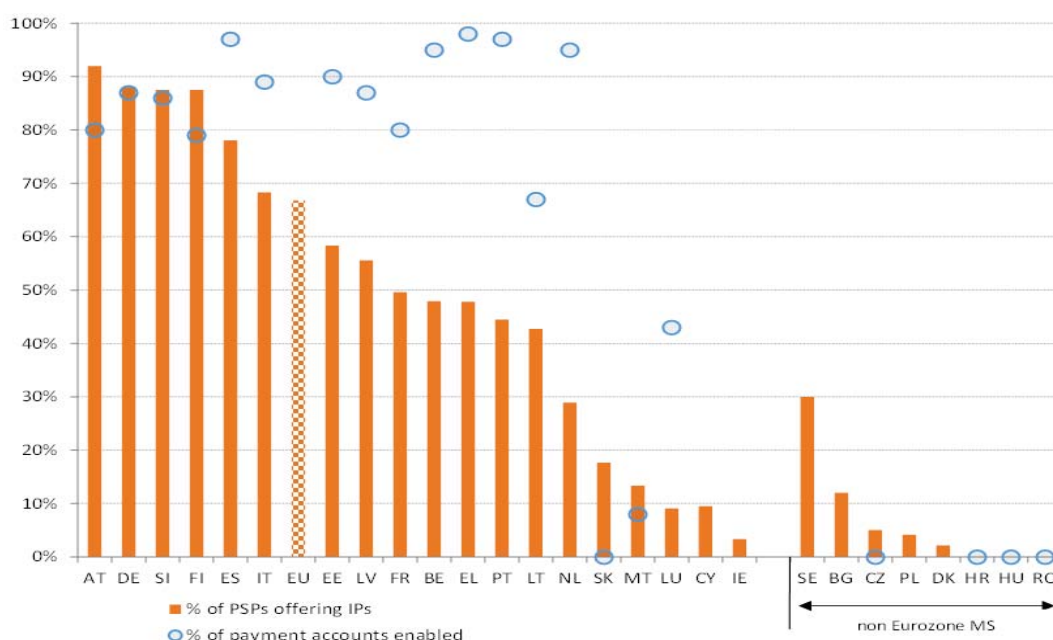
<sup>60</sup> Some SCT and/or SCT Inst. Scheme participants may not be authorised as PSPs under PSD2.

<sup>61</sup> Approximately ten of those PSPs are only able to receive IPs.

was slightly higher at 70.5% (2 299 out of 3 260), while outside the Euro area, it was significantly lower at 4.6% (9 out of 194).

There are significant differences between national markets within the EU. In 8 Member States (Austria, Estonia, Finland, Germany, Italy, Latvia, Slovenia and Spain), as of February 2022, a majority of PSPs offering regular euro credit transfers to customers also offered euro IPs. In four other Member States (Belgium, Greece, Portugal and the Netherlands), even though the PSPs able to offer IPs did not constitute a majority of PSPs, these PSPs held more than 90% of payment accounts in their respective countries. However, in as many as twelve national markets (eight outside the Euro area and four within the Euro area: Cyprus, Ireland, Slovakia, Malta) only a handful of PSPs have made the investments necessary to enable the payment accounts they hold to send and receive euro IPs. The below chart provides a breakdown per Member State.

*Chart 2 – Share of PSPs offering euro IPs and share of payment accounts enabled to send and receive euro IPs by Member State<sup>62</sup>*



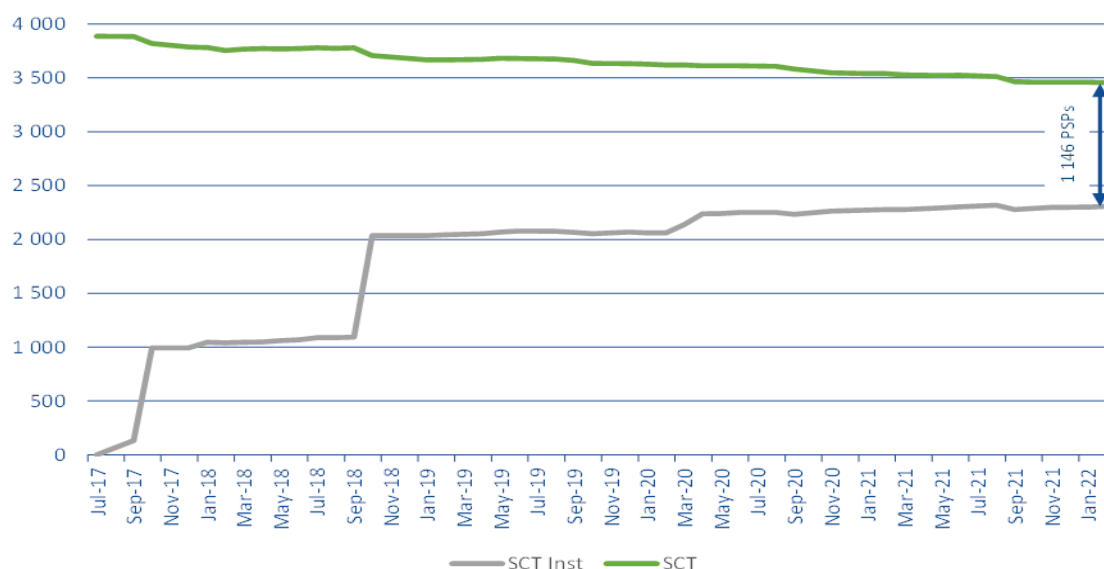
The real number of EU payment accounts with the ability to send and/or receive euro IPs is lower than the number of accounts held by PSPs adhering to the SCT Inst. Scheme. This is because not all PSPs with the capability to send and/or receive IPs offer this service to all of their account holders. Moreover, certain PSPs adhere to the SCT Inst. Scheme only in the capacity of a receiving PSP. It is estimated that holders of at least 70 million payment accounts in the euro area alone still cannot receive or send euro IPs.

<sup>62</sup> Source: EPC. Data on the share of PSPs offering IPs is as of February 2022. Data on the share of payment accounts enabled to receive and send IPs is as of November 2021 (data not available for Cyprus, Ireland, Sweden, Bulgaria, Poland, Denmark, while for Slovakia and Czechia it was 0% as in November 2021 no local PSPs adhered to the SCT Inst Scheme).



As regards the trend, the participation rate of EU PSPs in the SCT Inst. Scheme has been stagnant, as shown in the chart below. After the initial adherence to the SCT Inst. Scheme at its launch in 2017 of those PSPs that saw a business case in offering IPs, the rate at which new PSPs have been joining has been very slow since Q3 2018. Recently this rate plateaued, increasing only by 2.4 p.p. from 64.4% in February 2021 to 66.8% in February 2022, in correspondence with the fact that 1 146 PSPs still did not adhere to the SCT Inst. Scheme (see chart 3 below).<sup>63</sup>

Chart 3 - Adherence gap to the SCT Inst. Scheme, number of PSPs (EU27)<sup>64</sup>



The uptake of euro IPs in a cross-border context lags behind the uptake of domestic transactions (i.e. where the payer's and beneficiary's PSPs are based in the same Member State). For instance, in Spain, the volume of cross-border credit transfers accounted for 1.8% of all credit transfers in 2020<sup>65</sup>, while the share of cross-border euro IPs in all euro IPs was six times lower, i.e., 0.3%<sup>66</sup>; the respective figures for the Netherlands were 3.9% and 0.2%, almost twenty times lower for cross-border IPs.

Based on informal feedback from PSPs, it is clear that in order to expand the supply of euro IPs cross-border, PSPs want to be confident that if the customer requests an IP, it will be possible to execute that payment regardless of where the payee is based in the EU. In this regard, there is zero or close-to-zero chance that an IP will be successful if the payment is addressed to a payee in a Member State with no or very few PSPs enabled to receive euro IPs. Offering an IP service to customers without being able to guarantee that the payment will actually be instant can expose a PSP to customer dissatisfaction and reputational risk. Therefore, for many PSPs that already offer euro IPs, it is safer to stick to domestic transactions and not offer the service at all for cross-border payments. This

<sup>63</sup> The decreasing number for SCT can be explained by PSP consolidation.

<sup>64</sup> Source: EPC.

<sup>65</sup> Source: ECB, European Commission calculation. This figure also includes extra-EU transfers but these are likely to be a small minority of cross-border transfers, most of which will be within the EU.

<sup>66</sup> Data provided by National Payments Committees.

represents an important obstacle to meeting the objectives of a Single Euro Payments Area for IPs.

To sum up, for PSPs that do not yet offer euro IPs at all, and given the relative stagnation in participation in the SCT Inst. Scheme, it is preferable to wait for other PSPs to generate sufficient volumes, which the latter cannot achieve when participation in the network of the PSPs is lagging behind. This creates an impasse that is not easy to overcome by the industry itself.

However, there is an indication that where market coordination exists, the disincentives arising from network externalities can be, to a varying degree, dealt with. This is reflected by the experience of some Member States where the vast majority of PSPs joined the SCT Inst. Scheme at the same time (e.g., Belgium<sup>67</sup>, Spain<sup>68</sup>), which was due to a coordinated approach of the industry towards adopting euro IPs. It is naturally much more challenging to achieve the same market coordination at EU level.

In other Member States, National Central Banks or National Payment Committees played a very important role in promoting the uptake of euro IP technology. For instance, in Lithuania, a Memorandum of Understanding between six largest PSPs and the national central bank was concluded in 2017, aiming at ensuring that euro IPs are offered to customers.<sup>69</sup> In the Netherlands, the four largest banks committed in early 2015 to build an IP infrastructure under the programme guidance of the Dutch Payments Association, and all relevant stakeholders, including the Dutch Central Bank, have been involved from the start.<sup>70</sup>

In this regard, a number of studies (see Annex 10) suggest that involvement of public authorities is necessary to help address the failure of the market participants to take a coordinated action to achieve a synchronised adoption of a new payments technology and realise the full scale of network benefits. Such interventions have been key for a successful adoption of IPs in other jurisdictions. Also, this is why the migration of EU PSPs to the – new at the time – euro regular credit transfers and direct debits was made mandatory under the 2012 SEPA Regulation after years of unsuccessfully waiting for the industry to complete that migration on a voluntary basis.

### 2.3.2 Driver 2: Dissuasive transaction fees for IPs

The economic theory implies that demand for euro IPs, as a network-based service, is impacted favourably by the number of users participating in the network and, particularly, once ‘the critical mass’ of users is attained (see Annex 10). Yet, users are sensitive to the pricing of payment services which appears to dampen their demand for

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<sup>67</sup> See the report available [here](#).

<sup>68</sup> [A very early adopter of the SEPA Instant Credit Transfer scheme tells us about the Spanish experience | European Payments Council](#)

<sup>69</sup> Instant payments in Lithuania: standardisation and developmental directions, 2019, [https://www.lb.lt/en/media/force\\_download/?url=%2Fuploads%2Fdocuments%2Ffiles%2Fmusu-veikla%2Fmokejimai%2FApie-mokejimu-rinka%2Fmokejimu-taryba%2FInstant+payments+in+Lithuania.pdf](https://www.lb.lt/en/media/force_download/?url=%2Fuploads%2Fdocuments%2Ffiles%2Fmusu-veikla%2Fmokejimai%2FApie-mokejimu-rinka%2Fmokejimu-taryba%2FInstant+payments+in+Lithuania.pdf)

<sup>70</sup> [Instant payments are the new normal in the Netherlands; who will follow? | European Payments Council](#)



euro IPs and delay the attainment of that critical level of IP turnover (as well as its expected impact).

The data presented in Table 1 shows that there is a strong negative correlation between pricing of IPs and levels of uptake.

*Table 1: Impact of transaction fees on the uptake of euro IPs*

Member State	PSPs charging the same level of transaction fees for IPs and regular credit transfers		PSPs charging a different level of transaction fees for IPs and regular credit transfers		Uptake of IPs
	% of PSPs which offer IPs applying the same transaction charges as for regular credit transfers	Average level of transaction charges for IPs and regular credit transfers, in EUR	Average transaction fee of euro IP, in EUR	Average transaction fee of regular credit transfer, in EUR	
Estonia	100%	From 0 to 0.38	Not applicable	Not applicable	67%
Lithuania	100%	0 or 0.41 (where there is no package fee for all services)	Not applicable	Not applicable	45%
Spain*	30 PSPs, covering 95% of market share, via Bizum solution	0 (when initiated via Bizum), otherwise a fee may apply	Not available	Not available	38% (almost entirely driven by 510 mln transactions initiated via Bizum)
Latvia	100%	0.40	Not applicable	Not applicable	29%
Netherlands	100%	0	Not applicable	Not applicable	24%
Finland	100%	0	Not applicable	Not applicable	19%
Belgium	65%	0	0.88	0	17%
<b>EU average uptake: 10,97%</b>					
Portugal	7%	0.25	1.59	0.81	3%
Germany	A minority	Not available	Typically priced as premium products, (from 0.50 to 2.50)	in most cases 0	3%
France*	11 PSPs participating in Paylib P2P payment solution	0 (when initiated via Paylib), otherwise a fee may apply	0.76 (when initiated online)	0	3%
Slovenia	14%	0.395	0.90	0.38	1%
Italy	0%	Not applicable	2.80 (average) 1.60 (median)	0.45 (average) 0.70 (median)	0.1%

Source: Ministries of Finance, National Payment Committees, BEUC, Bizum

\* In these Member States, a PSP may offer free IPs when initiated via a payment solution jointly offered by multiple PSPs, but charge for IPs when initiated in a different way

Currently, there appears to be a great variety of approaches to transaction fees for euro IPs. Some PSPs and even entire PSP communities (e.g. in the Netherlands) have adopted a no-transaction fee policy or apply equal (Lithuania) or very comparable (Estonia,

Latvia) fees for IPs and regular credit transfers. Other PSPs apply relatively high fees per IP transaction, which many times exceed those for regular credit transfers<sup>71</sup>. For instance, based on a stock-take carried out by BEUC, in Italy, the fee per IP transaction may be as high as EUR 30. The overview of the transaction fees for IPs for most national payment markets is presented in the table below.

The impact of fees policy on demand for IPs is evidenced by the uptake rate of IPs in Member States where the fees of the two transfer types is at the same or comparable level. For instance, as shown in Table 1, in Estonia, the share of euro IPs in the volume of all credit transfers in euro in May 2021 was equal to 67%, in Lithuania 45%, in Latvia 29%, in the Netherlands 24%, and in Finland 19%, i.e., significantly higher compared to Member States where PSPs have adopted “premium” fees approaches, even with the same broad levels of participation in SCT Inst. Scheme. The impact of the pricing policy of IPs on their uptake is confirmed by the feedback to the targeted consultation and the data at Member State level. That data shows a healthy growth of the uptake in Member States where the pricing of euro regular credit transfers and euro IPs is comparable, and stagnant uptake in Member States where IPs are priced at a premium for the period May 2020 to May 2021.<sup>72</sup> A study<sup>73</sup> by the ECB analysing the impact of the level of transaction fees on the uptake of IPs in other international jurisdictions also concluded that higher fees limit the uptake of instant retail payments.

It can be observed that in a number of Member States where the fees charged by PSPs for IPs and regular credit transfers are currently comparable, this was facilitated or encouraged by the national authorities (see section 3.2). Similarly, the most successful, in terms of the number of users and transaction volumes, domestic IP solutions offered today by EU banks (e.g., Swish in Sweden or Bizum in Spain) have no transaction fee.

Fee differences do not seem to be justified by the differences in transaction costs (though theoretically this may reflect the intention of some PSPs to recover one-off costs gradually via transaction fees). The available evidence on the average recurring cost per transaction for IPs and regular credit transfers shows that the level of the two is rather close<sup>74</sup>. In some cases, PSPs reported that the average cost per transaction of IPs is lower than that of a regular credit transfer. In cases where the average cost of an IP was reported to be higher than that of a regular credit transfer, the difference in euro cents was typically in single digits and was dependent on the volume of IPs.

Some may argue that higher fees on IPs may be applied to obtain a compensation for the elimination of the one-day payment float when moving from a regular credit transfer to an IP (see Annex 8). However, it needs to be acknowledged that interest rates for investments with such a short horizon have been extremely low, or even negative, in the

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<sup>71</sup> Usually, fees apply to transactions made outside the PSP’s network (i.e. where the payer and payee hold accounts with different PSPs). Transfers within the PSP’s network (on-us transactions - where the payer and payee hold accounts with the same PSP), are often priced at zero.

<sup>72</sup> Over the 12 month period up to May 2021, the uptake of IPs in Spain increased by 19 p.p., in Lithuania by 16 p.p., in Finland by 8 p.p. while in Member States where PSPs apply ‘premium pricing’ the annual growth in uptake was minimal: 1.6 p.p in France, 1.2 p.p. in Germany, 0.4 p.p in Portugal and 0.1 p.p in Italy (Data source: National Payment Committees).

<sup>73</sup> [Are instant retail payments becoming the new normal? \(europa.eu\)](https://ec.europa.eu/economy_finance/are-instant-retail-payments-becoming-the-new-normal_en)

<sup>74</sup> Feedback from PSPs via targeted consultation and on a bilateral basis.

recent years and, therefore, this impact is not considered to have had a major impact on the pricing of euro IPs.

As regards the competitive environment in Member States where premium pricing is applied it should be noted there is a relatively high number of PSPs adhering to the SCT Inst Scheme<sup>75</sup>. Furthermore, in those Member States a variety of pricing models for IPs is present, i.e., while the majority of PSPs charge a high premium compared to regular credit transfers, there are also some PSPs that are not charging any premium or any fees for IPs<sup>76</sup>.

Charging transaction fees for IPs equal to 200% or 600% of the transaction fee for a regular credit transfer tends to reflect the positioning of IPs as a ‘premium service’<sup>77</sup>. However, consumers do not consider IPs a premium service. According to the feedback from consumers and consumer representatives to the open public consultation, 87% of them stated that fees are an important factor when deciding whether to use IPs. Furthermore, 67% of consumers stated that they would not be willing to pay a premium fee for IPs. Of the 25% who would be open to paying more, all indicated that an acceptable difference would be between 1% and 50% more than for regular credit transfers, which is far from the practice of charging up to six times more, as shown in Table 1. Studies also indicate that consumers are sensitive to price incentives, regardless of their actual payment preferences, and that price differentiation can be used to steer consumers towards or away from a certain payment method<sup>78</sup>.

Consumer organizations<sup>79</sup> have on several occasions brought up the issue of transaction fees and called for legislation equalizing the level of fees for regular credit transfers and IPs. During the 2021 FISMA webinar on IPs and the PSMEG<sup>80</sup> discussion, consumers were joined by merchants, PISPs and some banks, who agreed that offering IPs to consumers for a premium fee was not appropriate.

In addition to creating disincentives for consumers and businesses from using IPs, high transaction fees for IPs imposed by PSPs may create obstacles to the emergence of payment solutions at PoI offered by payments initiation service providers (PISPs), by making them unattractive in terms of fees compared to alternative payment means at PoI, such as cash or cards, which do not have a transaction fee for consumers.

### 2.3.3 Driver 3: High rate of rejected IPs due to false hits in sanctions screening

Currently, EU legislation does not prescribe the ways and means for PSPs to ensure compliance with their obligations to apply EU sanctions such as asset freezing against designated persons and entities. Thus, for cross-border IPs, PSPs apply transaction-based screening, which generates a high number of alerts that the payee or payer is a designated

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<sup>75</sup> For instance, as of February 2022, 1 214 PSPs adhered to SCT Inst Scheme in Germany, 282 in Italy and 130 in France.

<sup>76</sup> In France for example, the Banque Postale recently removed fees for Ips. See [this press report in French](#).

<sup>77</sup> Reported by consumers (see [this report from BEUC](#)), studies (see [this report made for the ECB](#)) and PSPs (bilateral exchanges, position letters).

<sup>78</sup> [How Do Consumers Make Their Payment Choices? \(ssrn.com\)](#).

<sup>79</sup> [beuc-x-2021-027 consumers and instant payments.pdf](#).

<sup>80</sup> Commission Payment Systems Market Expert Group, meeting of 16 December, 2021 (available at [this link](#)).

person on an EU sanctions list. Based on PSP feedback to the targeted consultation, this proportion falls in the range of 0.4% to 9.4%, compared to close to 0% for regular credit transfers.

Such alerts are the main reason for the rejection of initiated euro IPs, given that the time needed to verify the alert does not allow for executing the transaction instantly. The payment is therefore either not executed, or it can be executed but no longer as an IP (but as a regular credit transfer). This is highly inefficient considering that in as much as 99.8% of such cases<sup>81</sup>, the alert is a false positive. At the current level of uptake of IPs, each percentage point of rejected cross-border transactions is equivalent to some 150 000 IPs that did not reach the intended payee and this figure would only increase in proportion with the expected growth in the uptake of euro IPs. Moreover, the same problem is also applicable in the context of domestic euro IPs where the transaction-based screening is applied by PSPs.

The high volume of inaccurately ‘flagged’ and subsequently rejected IPs arising when transaction-based sanctions screening is applied creates operational challenges for PSPs’ who want to offer IPs to their customers. Some PSPs across various Member States have indicated that those challenges contributed to their decision to delay a provision of IPs on a cross-border basis. It also limits the reliability and predictability of IPs in the perception of users (consumers, merchants, corporates), having a negative effect on the level of uptake of IPs (see the Problem Tree in section 2.5).

More details on the different approaches to sanctions screening and their impacts on processing of IPs are included in Annex 4.

#### 2.3.4 Driver 4: Payer concerns about security of IPs with regard to fraud and errors

Credit transfers (regular or IPs) may<sup>82</sup> end up being sent to a payee not intended by the payer. This can be due to mistakes made by the payer (e.g. mistyping the payee’s account number) or as a result of fraud. The latter can involve illegal impersonation (e.g. a fraudster makes the payment instead of a genuine payer as a result of a cyberattack or theft of the payment instrument)<sup>83</sup>, or a criminal activity which occurs before the payment is made by a genuine payer (pre-payment fraud).

Pre-payment fraud can take the form of an invoice fraud (e.g. where invoices are intercepted and the merchant account number is substituted for that of the fraudster), or more sophisticated APP frauds involving manipulation of the payer through direct interaction (e.g. manipulation of the payer into believing he is dealing with a genuine payee or even with his bank’s representative). Such type of fraud precedes the execution

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<sup>81</sup> PSP responses to the targeted consultation and industry feedback.

<sup>82</sup> This is unlikely to happen in case of IP-based Pol solutions, working similarly to card schemes, where both payer and payee (merchant) undergo prior verification at onboarding process to be able to use the Pol solution and which often use proxies for the IBAN number (e.g. telephone numbers or email addresses). This means the payer does not need to manually input the IBAN number of the payee when making a payment.

<sup>83</sup> Payment fraud is addressed in the EU payments legislation (PSD2), and in particular regarding Strong Customer Authentication (SCA) and PSP liability for unauthorised transactions (e.g. Article 73 and 74 PSD2)

of the payment transaction. Currently the EU payments legislation does not envisage any specific provisions to protect payers from such criminal practices, neither with respect to more traditional payment methods (regular credit transfers, cards, direct debits) nor more novel ones, such as IPs. Likewise, EU payments legislation does not provide for any ex-post remedies for possible errors made by payers when inputting the IBAN<sup>84</sup> of the payee to place a payment order for a regular credit transfer or IP.

However, a common perception of payers is that even in case of pre-payment fraud, as well as for the possible errors in inputting the IBAN, when using regular ('slower') credit transfers, they will be able to cancel or reverse such transactions, while with IPs ('faster') credit transfers, they will not be able to do so. In fact, in order to ensure stability and certainty of payments, PSPs have no legal obligation to stop, cancel or reverse a payment order placed by the payer (such revocation can only be agreed upon contractually, possibly against a fee<sup>85</sup>). This needs to be distinguished from a refund, which can be offered as a new transaction paid from the original payee back to the original payer. Certain payment means come with such refund options, which are provided either on a commercial basis by card schemes or IP-based PoI solutions, or by law in the case of direct debits<sup>86</sup>.

Even if, in terms of the risk of fraud or errors occurring, and in terms of the legal guarantees<sup>87</sup> of recovering the funds, the difference between regular credit transfers and IPs is not materially significant, the novel nature of IPs, their speed and perceived reduced margin for reaction to fraud and errors may lead to payer concerns about the security of IPs and lead them to choose a slower form of payment, thus reducing the uptake of IPs even in cases where they are available. These concerns, whether justified or not, seem to be a driver of suboptimal uptake in situations where supply of IPs exists, alongside premium pricing. The need to enhance consumers' and businesses' trust, is generally recognised by stakeholders as a key element to facilitate a greater uptake of IPs<sup>88</sup>.

The more technical explanation of the types and extent of pre-payment fraud affecting all credit transfers, the different refund rights specific to different payment methods granted by law or on a commercial basis, and the rules on the irrevocability of payments are included in Annex 5.

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<sup>84</sup> The standardised account number for payments in euro, International Bank Account Number (IBAN).

<sup>85</sup> Under Article 80(5) PSD2, the payment order may be revoked only if agreed between the PSU and the relevant PSPs. If agreed in the framework contract, the relevant PSP may charge for revocation. For example, contractual arrangements under which the payer may request revocation of a payment order until the end of the same business day are possible with some PSPs in Italy.

<sup>86</sup> The only refund right laid out in the law (PSD2) concerns direct debits, because here the payee deducts the funds from the payer's account who has little control over when and how much will be deducted.

<sup>87</sup> Which are without prejudice to various possible contractual arrangements between PSUs and PSPs.

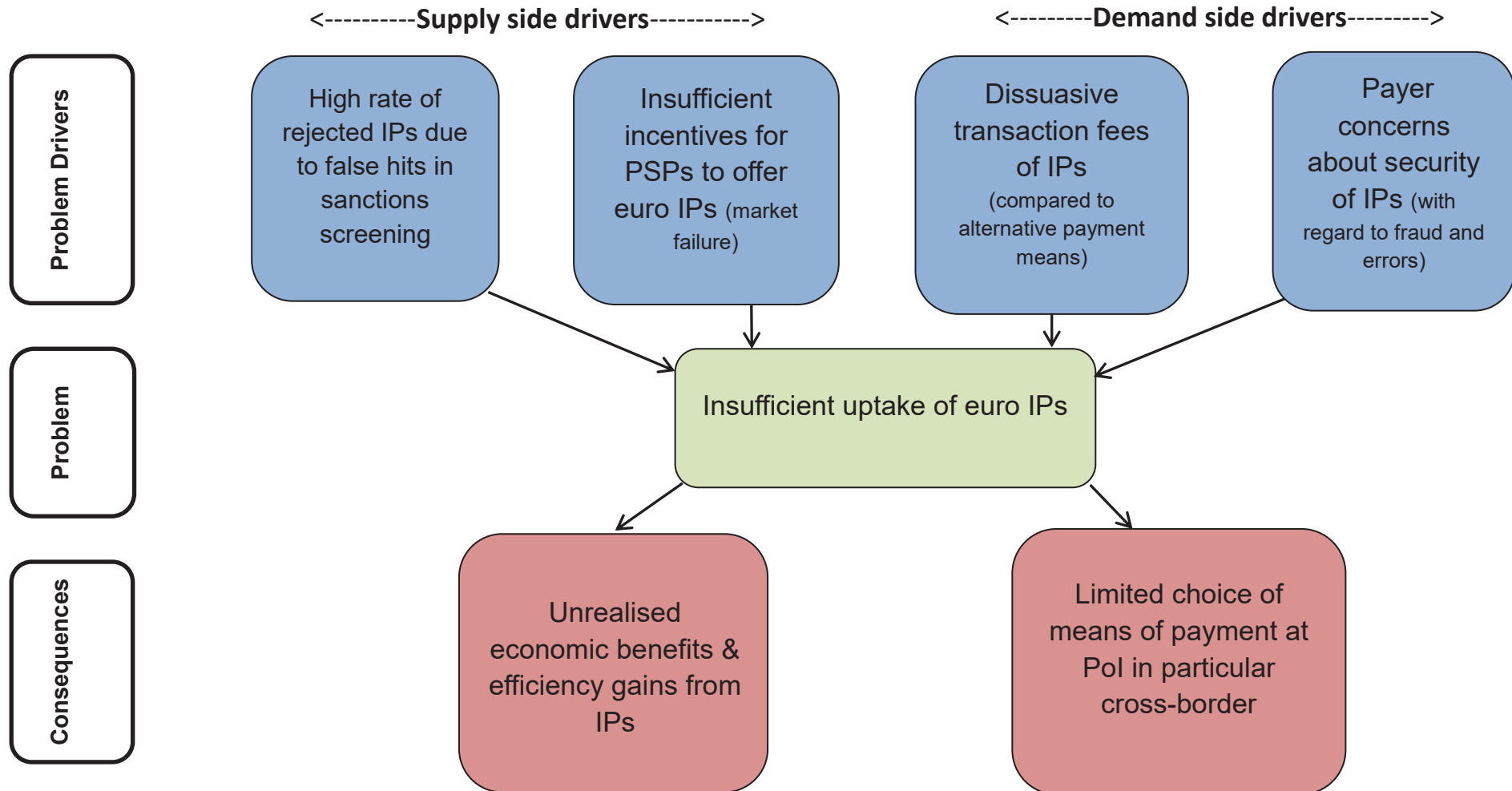
<sup>88</sup> E.g. Council in its conclusions of 22 March 2021 *"welcomed the priority given to enhance consumers' and businesses' trust, especially in instant payments, notably by assessing consumer protection aspects, in particular a confirmation-of-payee functionality"* [[pdf \(europa.eu\)](#)]; BEUC [[beuc-x-2022-035 how to make instant payments the new normal.pdf](#)]

## **2.4 How will the problem evolve?**

In the absence of EU action, as regards supply of IPs, the number of PSPs offering IPs will gradually increase, but the process will remain slow. Even where there is supply of euro IPs, with premium transaction fees for them being applied, the user uptake would remain limited. This would be further exacerbated by any unaddressed payer concerns about security of IPs. Finally, with sanctions screening procedures remaining inefficient, the rate of rejection of a notable portion of euro IPs, especially cross-border, would remain significant. The consequences of this “baseline scenario” are discussed more in detail in section 5.1 below.

In that case, the benefits of euro IPs for EU consumers, merchants, corporates, fintechs, PISPs, banks and the society as a whole will remain largely untapped. The inability of the market to achieve, by itself and in a timely fashion, the critical mass of euro IPs in the EU will have a negative effect on new pan-EU product offerings by PSPs and fintechs. The market for IPs, especially at PoI, will remain fragmented. Without an EU initiative to promote euro IPs, the best possible future evolution would be the development of bilateral or multilateral interconnections between domestic IP solutions that exist in certain Member States.

## 2.5 Problem Tree





### **3 WHY SHOULD THE EU ACT?**

#### **3.1 Legal basis**

Article 114 of the Treaty on the Functioning of the European Union (TFEU) confers on the European institutions the competence to lay down appropriate provisions that have as their objective the establishment and proper functioning of the Internal Market as announced in Article 26 TFEU.

Payments are an enabler of the Internal Market, which encompasses the free movement of goods, persons, services and capital. The limited choice of cross-border payment methods creates effective barriers to cross-border activities of consumers (buying goods/services in another Member State) and businesses (using suppliers located abroad, reaching clients in another Member State) that restrict their access to the Internal Market by imposing additional costs.

Article 114 TFEU is the legal basis of the SEPA Regulation concerning direct debits and credit transfers in euro. Euro IPs are a sub-category of euro credit transfers.

For all the above reasons, it is appropriate that the present initiative be introduced via an amendment to the SEPA Regulation.

#### **3.2 Subsidiarity: Necessity of EU action**

Member States acting alone are not able to ensure a high level of uptake of cross-border euro IPs. Only through an EU intervention can all relevant EU PSPs be required to offer the sending and receiving of cross-border IPs. The fact that in several Member States there are not more than a handful of PSPs able to send and receive euro IPs means that cross-border IPs cannot effectively work, given the network effects described in section 2.3 above. This remains true even despite the fact that a relatively high uptake of domestic IPs has been achieved within some Member States.

Members States could theoretically take actions to ensure a high level of uptake of domestic IPs. However, in practice there are no indications to suggest that the Member States where the current level of uptake of IPs is low have any immediate plans to adopt effective measures to increase that level. Only a few<sup>89</sup> Member States have developed a national strategy for retail payments aiming at promoting the use of IPs, but without stipulating any obligations or target dates for PSPs to engage in offering euro IPs.

Moreover, Member States alone cannot provide for harmonized EU rules regarding cross-border IPs, be it on sanctions screening or the protection of the payer in case of fraud or errors. If Member States do take action at national level, this would only accelerate the already emerging regulatory fragmentation. For instance, in Lithuania, a Memorandum of Understanding between PSPs aiming at ensuring that IPs are offered to customers and at the same transaction fee as regular credit transfers has been concluded at the initiative of the national central bank. In Portugal, a law<sup>90</sup> imposes limits on the

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<sup>89</sup> Five according to the ECB.

<sup>90</sup> Law 53/2020, of 26 August 2020, which stipulates that PSPs may charge commissions only when transactions exceed EUR 30 per transaction and EUR 150 per month, or 25 bank transfers per month.

collection of fees by PSPs for payment services, including IPs-based PoI solutions. In Belgium, a law has been proposed to make the provision of a service ensuring a check between the name of the beneficiary and the IBAN of the beneficiary mandatory for all PSPs, and laying out the main design features of a solution<sup>91</sup>. In France, specific provisions prescribe the procedure applicable to PSPs in the context of sanctions screening of payment transactions<sup>92</sup>. It cannot be excluded that more such initiatives will be taken by Member States, raising the compliance costs for PSPs offering services in multiple Member States and making the execution of cross-border IPs more difficult.

### **3.3 Subsidiarity: Added value of EU action**

Given the network nature of the payments industry, only European level action, co-ordinated on the supply and demand side, can unlock the full potential of the network benefits of IPs for EU consumers, merchants, corporate users, fintechs, banks and the EU economy. The alternative to an EU-wide approach would be divergent national legislation and at best a patchwork of purely domestic IPs solutions, unable to inject in the EU retail payments market the much needed increased diversity and choice of payment methods for both domestic and cross-border payments. Compared to individual action by Member States, EU intervention would also ensure a greater synchronisation of implementation of the relevant measures. This would not only create positive overall network effects, but also reduce the operational costs (e.g. due to economies of scale) for the PSPs that already provide euro IPs and for those that would start providing them in compliance with such EU-level measures. The EU-level action would also support the competitiveness of more PSPs and fintechs vis-à-vis the large incumbents.

## **4 OBJECTIVES: WHAT IS TO BE ACHIEVED?**

### **4.1 General objective**

Under the Commission Work Programme objective of “An economy that works for the people”, the general objective of this initiative is to significantly increase the uptake of euro IPs in the EU, in order to improve the efficiency of the retail payments market and unlock their benefits for EU citizens and businesses. This would also contribute to facilitating cross-border trade within the EU, leading to deeper integration of the Single Market and Digital Single market and supporting the recovery of the European economy.

### **4.2 Specific objectives**

The specific objectives of this initiative are to:

1. Increase the supply of euro IPs in the EU;
2. Address dissuasive fees for euro IPs compared to alternative payment means;
3. Simplify and enhance the efficiency of the sanctions screening process for euro IPs; and

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<sup>91</sup> Proposal of 27 October 2021, available [here](#).

<sup>92</sup> Decree (arrêté) of 6 January 2021 regarding internal control measures for anti-money laundering and terrorism financing, and regarding asset freezing prohibition to supply funds or economic resources: <https://www.legifrance.gouv.fr/jorf/id/JORFTEXT000042992976>.

4. Increase payer confidence in euro IPs as regards risk of fraud and errors.

## **5 WHAT ARE THE AVAILABLE POLICY OPTIONS?**

### **5.1. What is the baseline from which options are assessed?**

Under the baseline, the EU would not develop any new regulatory or non-regulatory action to increase the uptake of euro IPs. The provision of IPs in euro would remain voluntary for PSPs, which would also have full discretion in terms of pricing of euro IPs. There would be no EU harmonised rules laying out the process of sanctions screening with respect to euro IPs and there would be no measures to address payers' concerns about security of IPs.

Given that Member States are expecting EU action in these areas, inaction at EU level could prompt measures to be taken at national level. However, uncoordinated measures would lead to inconsistent approaches to retail payments and unfinished Single Euro Payments Area integration project and, more broadly, a fragmented Single Market. In any case, such uncoordinated approach would not increase the uptake of cross-border IPs. Also, the PoI payment market would remain concentrated, especially for cross-border transactions and efficiency gains from the wider use of IPs would not be fully exploited. Many problem consequences described in section 2.2 would not be tackled.

Regarding supply of euro IPs, based on recent evolution of the number of PSPs able to send and receive euro IPs, full coverage of all PSPs offering euro regular credit transfers would be attained in about 14 years, even if accompanied by 'soft' measures undertaken by EU institutions to promote the uptake (as they have proven to be ineffective with one third of PSPs)<sup>93</sup>. Varying speed of progress can be expected within Member States, with those with only a handful of PSPs adhering today being more likely to lag behind (given that some PSPs consider that joining the scheme makes sense only if a sufficient domestic level of uptake of IPs is already ensured).

New provision of IPs by PSPs would also not be synchronised. As a result, PSPs that already offer IPs would continue to incur various costs arising from the inability of other PSPs to receive/send IPs, such as costs linked to liquidity management (given that it is possible that more outgoing transfers would leave a given PSP instantly while a share of the incoming funds would continue to arrive with a delay of at least one business day). In view of the network nature of the service, for them it would also be more difficult to quickly grow the volume of IPs in order to realise positive network effects and economies of scale.

Regarding fees, dynamics in the level of fees would be entirely market-driven. However, it is unlikely that a significant reduction in transaction fees for IPs would be implemented/pursued by PSPs themselves given that: (i) a significant share of PSPs (in certain Member States) tend to position IPs as a 'premium service', setting a transaction

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<sup>93</sup> For instance, the concluding statement of November 2019 of EFIP called on all relevant stakeholders to "ensure pan-European reach of instant payments as soon as possible, and at the very latest in 2020" ([EFIP - statement from the 2nd meeting \(europa.eu\)](#)). See also Section 7.3.

fee at a considerable premium to a fee for regular credit transfers, and (ii) fees are considered as a stable source of revenues for PSPs.

Given the high sensitivity of consumers, regardless of their actual payment preferences, to the fees of substitute payment means, it is unlikely that there would be any significant increase of uptake of euro IPs, either in the form of online account-to-account transfers or at PoI, if the premium pricing of euro IPs by some PSPs is not addressed. In addition, transaction fees for IPs greater than transaction fees for alternative payment means (such as regular credit transfers), would hinder the development and competitiveness of IP-based PoI solutions offered by third party providers who would be unlikely to cover themselves the disproportionate transaction fees for IPs charged by PSPs. This would make these solutions too expensive for the end users (compared to other PoI payment means, such as cash or cards).

Regarding sanctions screening, according to PSPs, through their own efforts (e.g. by improving their automated screening tools or data quality), they could reduce the number of 'false positive' hits for cross-border and domestic IPs only to a limited extent. Those efforts would not be sufficient to lower the proportion of rejected cross-border IPs to the rate of rejections experienced by PSPs for (i) domestic and cross-border regular credit transfers (since in this case PSPs have more time for a follow up investigation, as crediting of the funds to the account of the beneficiary must be completed at the latest on the following business day), or (ii) domestic IPs of those PSPs that comply with their sanctions screening obligations by regularly and frequently updating their customer lists (in lieu of transaction-based screening).

Moreover, the potential use of IPs at PoI would also be severely undermined as it would not be acceptable for consumers and merchants to have such a high rate of rejections in shops and in e-commerce. This would reduce the attractiveness of IPs at PoI, given that the competing payment options (cards and cash) would not suffer from the same problem.

Regarding payer confidence in the security of IPs, the issues described in section 2.3.4 and Annex 5 would persist, affecting consumers' and corporates' trust and demand for euro IPs. Pre-payment fraud, such as social engineering scams and other APP fraud, as well as consequences of errors made by payers, would continue to be unaddressed through the existing EU payments legislation. With the increased use of e-commerce<sup>94</sup> and digitization of all kinds of personal and organizational activities it is likely that payers would become even greater targets of such scams.

In addition, with the upcoming initiatives of several national communities of PSPs<sup>95</sup> or public authorities in some Member States, to offer or require some kind of an IBAN-name verification service for domestic euro IPs only, and designed in diverging fashions, the attention of fraudsters would likely shift to cross-border credit transfers, where the combined rate for all types of fraud is already 20 times higher than that of purely domestic transfers. Postponing the introduction of additional payer protection for cross-border IPs could imply two rounds of investments for PSPs (first for domestic

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<sup>94</sup> In the EU alone, 15 million new e-shoppers appeared in 2020 vs 2019. Source: Europe 2020 Ecommerce Region Report, Ecommerce Europe and EuroCommerce, July 2020.

<sup>95</sup> E.g. in Belgium: see [this press release from the Belgian Finance Association](#).

transactions on the basis of non-harmonised local initiatives, and again for ensuring coverage of cross-border transactions).

## **5.2. Description of the policy options**

### **5.2.1. Increase the supply of IPs in the EU**

The following policy options are considered:

#### Option 1.1. Legal obligation for PSPs to be able to receive euro IPs

This option would make it mandatory for PSPs offering euro regular credit transfers to be able to receive euro IPs but would leave it to them to voluntarily offer their users a service of sending a euro IP.

#### Option 1.2. Legal obligation to offer sending and receiving of euro IPs for PSPs offering the service of regular euro credit transfers to users (with targeted exclusions)

Wide availability of IPs would be ensured through a legal obligation imposed on PSPs that offer regular credit transfers in euro to offer both the sending and receiving of IPs in euro.

Proportionality would be embedded in this option by ensuring that only PSPs that execute euro regular credit transfers for their clients (consumers and businesses), i.e. as a payment service offered to users and not for own account, are covered by this obligation. Moreover, the option would not impose a mandatory offering of euro IPs on certain types of PSPs (payment institutions and electronic money institutions), given that under the current EU law<sup>96</sup>, they have no right to participate in certain key payment systems (including systems settling IPs, such as TIPS) and have to rely on banks to get (indirect) access to such systems.

This option would apply to PSPs in both Euro area and outside for the following reasons:

- (i) ensuring coherence with the present scope of SEPA (see section 7.3);
- (ii) the need to provide the same right of receiving and sending cross-border IPs to citizens regardless of their place of residence in the EU, which is possible only by means of cross-border euro IPs (see Annex 9), and
- (iii) the share of euro cross-border credit transfers sent from non-Euro area Member States in the overall volume of euro cross-border credit transfers within the EU is material (around a quarter<sup>97</sup>).

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<sup>96</sup> The Settlement Finality Directive ([Directive 98/26/EC](#)) excludes such institutions from participation in settlement systems which are "designated" under that directive, including many EU settlement systems which are widely used for credit transfers and IPs. As part of a review of that Directive, a public consultation took place during the first half of 2021, including a question on this exclusion. If this exclusion in SFD were to be removed in future, then the corresponding exclusion in this initiative on IPs could be reconsidered during the first review of this initiative.

<sup>97</sup> Source: ECB, Commission services calculation.

This option would entail transitional provisions to ensure that the obligation is introduced gradually, initially for PSPs within the Euro area, followed by those outside the Euro area at a later stage.

The obligation to be able to receive IPs would need to be complied with by PSPs within a specific deadline, while the obligation to be able to send IPs would have to be complied with by PSPs within a longer deadline (e.g. with several months more time). This would allow PSPs to stage their efforts, since being able to only receive IPs is linked to a reduced implementation burden (e.g. there is no need to update online banking interfaces and channels in order to only receive IPs, the same IT resources can be used to ensure consequent stages of implementation, etc.).

#### Option 1.3. Legal obligation for all PSPs carrying out euro regular credit transfers to carry out euro IPs

Universal availability of IPs would be ensured through a legal obligation imposed on all PSPs that carry out regular credit transfers in euro to carry out their instant version. This option would entail no carve-out of PSPs as described in option 1.2, and would include all PSPs that offer regular credit transfers in euro as a service to payment services users as well as those that carry out such transfers exclusively on own account<sup>98</sup>. This option would cover both sending and receiving of euro IPs. It would still include staggered compliance dates (i) for being able to receive and send euro IPs or (ii) based on the currency area of the Member State where PSPs offer their IP services.

Under options 1.2. and 1.3., entities subject to the obligation to offer IPs would be free to decide whether they wish to continue to offer or carry out regular euro credit transfers in parallel.

#### Option 1.4. Mandatory migration for all PSPs from regular euro credit transfers to euro IPs

This option would require that as of a certain date, all euro credit transfers must be carried out as instant, i.e., that PSP clients would no longer have the option to initiate regular credit transfers. Euro IPs would legally replace regular transfers, and the SCT Scheme of the EPC would be ended and entirely replaced by SCT Inst Scheme.

#### 5.2.2. Address dissuasive fees for euro IPs compared to alternative payment means

The following policy options are considered:

#### Option 2.1: Obligation for PSPs to apply fees for IPs in euro that are not higher than fees for regular credit transfers in euro

Under this option, euro IPs could not cost the user more than euro regular credit transfers. This means that where, for example, PSPs would choose not to charge customers a per-transaction fee for a euro regular credit transfer, they could not charge

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<sup>98</sup> See Annex 7 for details on the characteristics of PSPs carrying out regular and instant credit transfers in euro.



for a euro IP either. PSPs that do apply transaction fees for regular credit transfers in euro would be obliged not to charge higher fees for euro IPs. PSPs would maintain full discretion as to their pricing structure and levels, as long as the fees for IPs that a given PSP charges are not higher than the fees that the same PSP charges for euro regular credit transfers.

The obligation would apply to fees applicable to both sending and receiving euro IPs. The date of application of this obligation would be consistent with the dates of application of the obligations for PSPs to offer euro IPs in the Euro area and outside the Euro area respectively.

In non-Euro area Member States, PSPs which currently charge more or the same for euro cross-border regular credit transfers than for corresponding domestic IPs denominated in the national currency, this option will have no impact on the level of fees for cross-border euro IPs, because such fees are already regulated under CBPR and must be the same as the fees for corresponding domestic non-euro IPs. Only if a PSP located in a non-Euro area Member State currently charges more for domestic non-euro IPs than for cross-border regular euro credit transfers, would they be required to lower the fee for cross-border euro IPs at least to the level of the fee for cross-border regular euro credit transfer.<sup>99</sup>

#### Option 2.2. Obligation for PSPs to offer euro IPs free of charge

Under this option, PSPs would be prohibited from applying fees per euro IP transaction, regardless of transaction fees that PSPs apply for euro regular credit transfers.

The obligation would apply to fees applicable to both sending and receiving euro IPs. The date of application of this obligation would be consistent with the dates of application of the obligations for PSPs to offer euro IPs.

As regards cross-border euro IPs carried out by a PSP in a non-Euro area Member State, the same impacts and approach with respect to CBPR as in the case of Option 2.1. would be applicable.

#### 5.2.3. Simplify and enhance the efficiency of the sanctions screening process for euro IPs

The following policy options are considered:

##### Option 3.1: Eliminate overlaps in transaction-based screening

This option would consist in adjusting and harmonizing the way in which the transaction-based screening is to be carried out to remove inefficiencies and duplications. The

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<sup>99</sup> Article 3.1 of CBPR provides that “Charges levied by a payment service provider on a payment service user in respect of cross-border payments in euro shall be the same as the charges levied by that payment service provider for corresponding national payments of the same value in the national currency of the Member State in which the payment service provider of the payment service user is located”. This means that if a domestic IP in national currency costs (the equivalent of) EUR 5, a cross-border euro IP must cost exactly the same, i.e. EUR 5, even if the cross-border regular euro credit transfer costs less (e.g. EUR 2). In such cases, the requirement of the present initiative would apply instead of that under CBPR, which would mean that such cross-border euro IP must cost no more than EUR 2.



current duplication of screening of the same elements of a given transaction by a payer PSP and a payee PSP would be removed, with the tasks (elements to be screened, lists against which the screening to be performed, etc.) being clearly allocated between the two of them. For EU sanctions lists, the transaction screening of both a payer and a payee would be carried out only by the payer PSP before a payment is sent to the payee PSP.

Option 3.2: Replace transaction-based screening with regular updates by PSPs of own customers lists against applicable EU sanctions lists ('SEPA domestic' approach)

This option would consist in each PSP which offers IPs (whether under a requirement to do so or voluntarily) being responsible for screening its own clients both at the moment when a payment account is opened and via regular and timely updates of customer records vis-à-vis the latest applicable EU sanctions lists. In doing so, the payer's PSP and the payee's PSP will be able to clarify which payment accounts truly belong to persons and entities that are designated on EU sanctions lists and which ones belong to clients whose name is only very similar to the name of sanctioned persons or entities (so that such clients are able to initiate IPs and have access to funds received, with no need to carry out transaction-based screening).

Mutual trust of PSPs and national authorities in the 'SEPA domestic' approach and in its uniform and effective application would be aided by a possibility to impose a penalty on a PSP that fails to comply with its obligations underlying such harmonised screening process.

5.2.4. Increase payer confidence in euro IPs as regards risk of fraud and errors

The following policy options are considered:

Option 4.1: An obligation for PSPs to ensure the availability of a service allowing a payer to have an immediate check of the 'match' between the IBAN and the name of a payee, before confirming an IP

This option would imply an EU-wide obligation for PSPs offering euro IPs (whether under a requirement to do so or voluntarily) to provide a service to payers, ensuring that before they authorise the payment, they are informed of the degree of a match between the name and IBAN of the payee as provided by the payer. The payer would maintain the final control and, based on the feedback received from the PSP, would decide whether to proceed with the IP. The liability regime of PSPs under PSD2 would remain unchanged. The service would be required in respect of both domestic and cross-border euro IPs. PSPs would be free – but not required – to offer the same service with regard to regular credit transfers, which are targeted by the same type of pre-payment fraud and can be affected by errors made by the payer in the same way as IPs.

Option 4.2: Grant payers the right to ask for a refund under certain circumstances (e.g. where a payer can prove that there was a pre-payment fraud or a mistake)

This option would consist in granting payers a right to obtain a refund of an authorised and executed euro IP within a certain period of time. This right would apply where a payer can prove that their intention was to send the payment to a different payee (e.g. by providing a copy of the invoice or evidence of a contractual agreement with the payee from which the payment obligation derived).

#### Option 4.3: An obligation for the payee's PSP to temporarily 'freeze' funds credited to the payee's account

This option would consist in crediting the funds received through a euro IP to the account of the payee within maximum 10 seconds, but making them available for spending by the payee only after a certain period of time (e.g. 1-2 days). This would allow the payer some limited time to realise the occurrence of a potential error or pre-payment fraud, and could facilitate a returning of these funds to the payer by the PSP of the payee.

#### 5.2.5. Options discarded at an early stage

Option 1.1 (Legal obligation for PSPs to be able to receive euro IPs) would only partially respond to the problem driver 1 of *insufficient incentives for PSPs to offer euro IPs (market failure)*. PSPs which have not so far decided to offer euro IPs on a voluntary basis are likely to limit their euro IP offering to the bare legal minimum and refrain from offering the service of sending IPs, given that investments required to offer sending of IPs represent a material, often larger<sup>100</sup>, share of the total investment costs needed to be able to offer euro IPs. Some of those PSPs may consider offering the sending of euro IPs but many would have a preference to wait for higher volumes of euro IPs to be achieved in the network. Requiring that all PSPs are only able to receive euro IPs would generate only limited increase of euro IP volumes since a significant share of users, holding more than 70 million payment accounts in the Euro area alone (see section 2.3.1), would still not be able to send a euro IP. As a result, this would significantly impair the achievement of full network benefits. Due to the lower overall uptake of euro IPs, this option would also be ineffective in promoting the emergence of IP-based PoI payment solutions such as mobile apps.

As regards liquidity management within PSPs, in the case of an obligation for PSPs to both send and receive payments instantly, the impact on their liquidity needs and management would be rather symmetric given that each PSP acts both as a payer's PSP and a payee's PSP (and funds would simply move quicker – from the moment of the payment order initiation - between PSPs without materially impacting their liquidity position). Similarly, all PSPs would be impacted rather evenly in terms of foregoing the revenues arising from the float. Under option 1.1, however, these impacts would become rather asymmetric and would create significant liquidity disadvantages for PSPs offering the sending and receiving of euro IPs, compared to PSPs only receiving euro IPs. Only the PSPs offering both sending and receiving euro IPs would face higher liquidity needs in their settlement accounts with payment systems and forego any payment float-related revenue<sup>101</sup>, while the only receiving PSPs could continue to benefit from the float, which in turn may create disincentives for them to offer the sending of IPs on a voluntary basis (see Annex 8). On grounds of the above considerations, this option was discarded at an early stage.

Option 1.4 (Mandatory migration for all PSPs from regular euro credit transfers to euro IPs) would fully achieve the general objective of *significantly increasing the uptake of euro IPs*, as it would not only require all PSPs that carry out regular euro credit transfers

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<sup>100</sup> Based on PSP responses to targeted questionnaires and bilateral discussions with PSPs.

<sup>101</sup> See Annex 8.

to carry out euro IPs (as in option 1.3), but it would automatically absorb all the current volume of regular credit transfers in euro. However, it was discarded at an early stage as disproportionate.

From the user perspective, rather than providing incentives for uptake of IPs through removing dissuasive fees and alleviating concerns over fraud or errors, it would effectively force consumers and businesses to use IPs in all circumstances. From the PSP perspective, the prohibition of processing of any euro credit transfers as non-instant could cause undesirable consequences arising from the lack of capacity and preparedness by the industry to ensure an uninterrupted provision of euro IPs in the current volumes of SEPA credit transfers (22.5 billion transactions in 2020) and to prudently manage the associated risks which, in turn, may have negative spill-over effects for the stability of the EU payment and financial system. While this concern could be addressed through a sufficiently long transitional period, it would delay the application of the obligation to offer euro IPs in the first place, ultimately rendering the effectiveness of this option lower than that of options 1.2 and 1.3.

Moreover, many stakeholders (users, PSPs, authorities) consider that regular credit transfers should be phased out by the industry itself based on the evolution of customer demand and, also, in view of the pace of uptake of IPs globally (as the provision of international or non-SEPA regular credit transfers would have to be continually supported by EU PSPs).

Option 4.3. (An obligation for payee's PSP to temporarily 'freeze' funds credited to the payee's account) would have several serious intrinsic shortcomings and therefore was discarded at an early stage. First, it would be incompatible with the nature of credit transfers, including instant ones, as a credit transfer, once authorised, cannot normally be revoked<sup>102</sup>. This is a matter of stability of and trust in financial transactions.

Second, freezing of the funds for a short period of time would have a limited benefit in terms of protecting the payer from losses since, based on feedback received from a PSP, the average time to discover that a transaction was made to a fraudster can range between 2 and 6 weeks.

Third, the immediate availability of the funds to the payees is one of the key features of IPs that makes them attractive to users. As mentioned in Section 2.2.1, all consumer organisations and a majority (88%) of individual consumers who responded to the open public consultation deemed it important that the funds reach the payee immediately. Importantly, this feature of IPs also enables the payees to realise important associated economic benefits of having funds immediately available for investment or consumption (see Annex 8). Removing this feature by way of requiring a freezing of the funds on the payee's account (even if only for a day or two) would make IPs effectively the same as regular credit transfers and eliminate their key distinctive advantage for users. The full certainty of having been paid (as the funds arrive on the payee's account in a few seconds) is as effective as the payment guarantee offered by cards schemes for a fee and, therefore, is key for a successful and widespread adoption of IP-based payments at PoI. The feedback received from across the industry, banks and fintechs alike, has been that

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<sup>102</sup> Article 80, Recitals 78 and 79 PSD2

any payer protection measure must not jeopardise the essence of IPs which is payment certainty and finality.

## **6 WHAT ARE THE IMPACTS OF THE POLICY OPTIONS AND HOW THEY COMPARE?**

### **6.1 Increase the supply of IPs by PSPs**

Option 1.2 (Legal obligation to offer sending and receiving of IPs in euro for PSPs offering the service of regular euro credit transfers to users (with targeted exclusions)) would ensure that the vast majority of PSPs that offer the service of sending and receiving regular credit transfers in euro would be added in a timely and synchronised manner to the network of PSPs offering euro IPs. This option would ensure that IPs in euro, both domestic and cross-border, become a widely available method of payment across the EU much sooner than under the baseline. This option would entail a number of features aimed to ensure that the obligations are proportionate and are phased in gradually.

Proportionality would be embedded by not covering by the abovementioned obligation the following two groups of PSPs:

- (i) PSPs that do not offer regular credit transfers as a payment service to their customers (i.e., consumers and corporates), but carry out such transfers exclusively on own account. Examples of such PSPs may include certain clearing and custody institutions, investment or securities firms or bank holding companies<sup>103</sup>. Their exemption would be contingent on them not providing regular credit transfers, as a payment service, to customers.
- (ii) Electronic money institutions and payment institutions would be excluded due to their current ineligibility to become participants (directly or indirectly) of payment systems designated under the Settlement Finality Directive (SFD)<sup>104</sup>. These PSPs need to secure their access to the payment system via another participant (such as for example a credit institution), which makes offering of IP services for them more complex process-wise and potentially more costly, compared to other PSPs that are credit institutions and qualify as participants of designated payment systems under the SFD<sup>105</sup>.

These two types of exemptions, in total, would apply to approximately 300 PSPs that today carry out regular credit transfers in euro<sup>106</sup>, leaving 800-900 PSPs that would fall under the obligation (about a quarter of PSPs carrying out credit transfers in euro).

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<sup>103</sup> See also Annex 7

<sup>104</sup> Directive 98/26/EC on settlement finality in payment and securities settlement systems.

<sup>105</sup> Inclusion of e-money institutions and payment institutions in the scope of this obligation could be revisited if their eligibility as participants of designated payment systems were to change.

<sup>106</sup> Based on (i) the assessment of the trade description (provided in ORBIS database) of PSPs that currently do not adhere to the SCT Inst Scheme and (ii) identification of payment institutions and e-money institutions on the basis of the EBA register (<https://www.eba.europa.eu/risk-analysis-and-data/register-payment-electronic-money-institutions-under-PSD2>).

The total one-off compliance costs are reported by PSPs to fall in the range of EUR 10 000 to EUR 1.3 million per PSP. This cost would vary in relation to the size of a PSP, i.e., it would be higher for larger PSPs and lower for smaller PSPs, with the overall estimated cost for the industry in the range of EUR 36 million and EUR 477 million<sup>107</sup>.

Box 2

**Actions necessary for a PSP to be able to send and receive euro IPs**

- A. Join SCT Inst. Scheme (i.e., ensure internal compliance with scheme requirements).
- B. Integrate IP module in internal IT system, adjust online and mobile banking interfaces and APIs in order to, e.g., (i) receive euro IPs, (ii) provide users with means of submitting instructions for sending euro IPs; (iii) provide immediate feedback on screen if the payment failed or was rejected by the beneficiary bank.
- C. Update terms and conditions and other legal documentation (e.g. the notion of a banking business day would not be applicable).
- D. Connect to a relevant Clearing and Settlement Mechanism (CSM) in order to fulfil the instant settlement obligations.
- E. Set up 24/7/365 operability with IT support capabilities (e.g. customer support based on artificial intelligence, such as chatbots).

Moreover, in Member States outside the Euro area credit transfers in euro are much less common than in the local currency<sup>108</sup> and the volume of euro IPs is also expected to be lower. Thus, the potential revenue for PSPs outside the Euro area is expected to be lower compared to the Euro area. Nevertheless, a number of market factors and deliberate proportionality measures are expected to provide a counter-balancing mitigatory effect.

Firstly, the obligation would be introduced gradually: firstly, for PSPs in the Euro area, and at a later stage<sup>109</sup>, for those outside the Euro area. Such a later deadline for non-Euro area PSPs will enable them to optimise their implementation efforts and resources by

<sup>107</sup> The quoted range reflects one-off implementation costs incurred in order to be able to provide IPs as reported by PSPs whose size, in terms of total assets, is comparable to the size of PSPs that would be captured by this obligation. The reported implementation costs were as follows: EUR 10 000 (a PSP with total assets of 240 million), EUR 25 000 (a PSP with total assets of 67 million), EUR 55 000 (a PSP with total assets of EUR 14 million), EUR 143 000 (a PSP with total assets of EUR 138 million), EUR 100 000 (a PSP with total assets of EUR 5 billion), EUR 343 000 (a PSP with total assets of EUR 59 billion), EUR 1 million (a PSP with total assets of EUR 4 billion) and EUR 1.3 million (a PSP with total assets of EUR 93 billion). On this basis, the overall costs for PSPs were estimated for 2 buckets of PSPs depending on their balance sheet size: PSPs whose assets are below EUR 1 billion (255) and PSPs whose assets are greater than EUR 1 billion (311), using ORBIS database. PSPs that did not have their assets identified (258), were assumed to have total assets below EUR 1 billion. For the lower bucket, the range of one-off compliance costs was EUR 10 000 to EUR 143 000, while for the upper bucket the range was EUR 100 000 to EUR 1.3 million. On this basis, total one-off compliance costs are estimated to fall in the range of EUR 36 million to EUR 477 million.

<sup>108</sup> For instance, in 2020, non SEPA credit transfers (i.e. in EU currencies other than euro) represented 98.8% of all credit transfers in Bulgaria, 98.7% in Czechia, 99.6% in Denmark, 99% in Croatia, 99.1% in Hungary and 86.6% in Romania (ECB data).

<sup>109</sup> In line with the approach in the SEPA regulation with respect to regular credit transfers and direct debits, the adherence deadline may be delayed by 24 months compared to the deadline applicable for the Euro area PSPs.



spreading them over a much longer period of time. The later implementation deadline would also further mitigate any negative or disproportionate effect on non-Euro area PSPs by virtue of the fact that greater euro IP network benefits would be set in motion by then (as a greater volume of euro IPs is expected to be attained due to earlier implementation deadline applicable to Eurozone IPs).

Secondly, proportionate impact of this option on non-Euro area Member States also is based on the estimation that 13% of all PSPs offering payment services in Member States outside the Euro area would fall in the scope of this policy option (see Annex 7). This is because (i) a large majority of them are not carrying out regular credit transfers in euro and thus would not be covered by the obligation, while others either (ii) already offer euro IPs on a voluntary basis, or (iii) carry out regular credit transfers in euro only on own account, or (iii) are e-money or payment institutions excluded from the obligation.<sup>110</sup>

Thirdly, two Member States (Bulgaria and Croatia) will have adopted the euro by the time this initiative will apply;

And finally, domestic IP systems in national currencies exist in all non-Euro Member States. For PSPs already offering IPs in national currencies, investments in these systems can be leveraged for providing euro IPs, thus reducing the initial adjustment costs, in view of the fact that the domestic approaches are often heavily based on the rules of the SCT Inst. Scheme, and in some of those Member States the same settlement system would be used for IPs in euro and national currencies (e.g., Sweden and Denmark intend to use TIPS). Similar synergetic effects are expected with respect to ongoing costs, such as providing 24/7/365 customer support for both types of IPs. Thus, actions listed in Box 2 above would be to a large extent already covered:

A	Largely covered in 6 non-Euro area Member States where national schemes are based on the SCT Inst. Scheme (Bulgaria, Croatia, Denmark, Hungary, Romania, Sweden)
B	Already covered in all non-Euro area Member States for IPs in national currency
C	Largely covered in all non-Euro area Member States for IPs in national currency
D	Already covered for 4 non-Euro area Member States: two using TIPS for non-euro IPs (Denmark, Sweden), two which will join the Euro area (Bulgaria, Croatia)
E	Already covered in all non-Euro area Member States for IPs in national currency

See Annex 6 for detailed description of IP systems in national currencies in non-Euro area Member States.

In addition, the staging of the obligations for all PSPs covered by this option (within and outside the Euro area), by requiring PSPs first to be able to receive euro IPs and only from a later date to be able to also send them, would allow PSPs to spread the

<sup>110</sup> According to the ECB, at the end of 2020, there were 1 333 institutions in eight non-Euro area Member States that provided payment services. Of them, only some 170 (13%) are expected to fall in the scope of option 1.2, since 85% of them did not carry out regular credit transfers in euro, while additional 2% are estimated to fall in one of the categories (ii)-(iv).



implementation costs of the project over time, which could be of particular usefulness for smaller PSPs that do not have extensive internal IT resources<sup>111</sup>. At the same time, such sequencing would still ensure a greater reachability of payees across the EU from the beginning of the intervention and enable PSPs that already offer IPs, to both achieve greater customer satisfaction and benefit themselves from the rising volumes of IPs due to expanding network effects.

The synchronised addition of the majority of the currently non-adhering PSPs to the SCT Inst. Scheme, and any resulting increase in the volume of euro IPs, would decrease the average transaction cost of an IP at a PSP level due to economies of scale. It would also make it easier for the PSPs that already offer euro IPs to manage their (intraday) liquidity risk, as the overall speed with which funds flow out and flow in a PSP would become more balanced and predictable. The impact on the amount of liquidity that PSPs would have to hold in their settlement account in the relevant payment systems is not expected to be material. In this regard, a study conducted by the Bank of Finland<sup>112</sup> looked into the additional liquidity that PSPs would have to hold under the scenario of a full migration from regular credit transfers to IPs (i.e., 100% uptake of IPs). The study estimated that the aggregate increase in daily liquidity needs for Finnish PSPs in their settlement accounts would be small, i.e., on average 2.7%. Under the IP uptake assumptions considered by this impact assessment (50%-70%), an accordingly lower increase of liquidity needs in settlement accounts can be reasonably assumed. The study also observed that the timing for a transition to IPs might be favourable as the high liquidity currently held by PSPs could accommodate any temporary increases in liquidity needs (for more implications of a higher uptake of IPs on PSPs' liquidity and its management please see Annex 8).

The PSPs would forego any current revenues generated by placing the funds arising from the payment float in short-term investments. It is estimated that at the industry level such revenues would represent less than 0.3% of the total annual net operating income (see Annex 8). However, this is not seen as an unintended consequence, as from the regulation point of view the payment float is considered as an inefficiency in payments to the detriment of payment services users (to whom the related economic benefit, as a result of this policy option, would be redistributed), rather than a deliberate policy targeted to aid PSPs' profitability. Moreover, the possibility for PSPs to generate earnings from the payment float creates disincentives for PSPs to innovate and improve the efficiency of payments.

The extent of the increase of the volumes of euro IPs would be even greater if problems identified on the demand side, such as dissuasive fees of euro IPs and risks related to fraud and errors, were also addressed.

A legal obligation for PSPs to offer IPs in euro was supported by 56% of all respondents to the open public consultation leading up to the Retail Payments Strategy and by two thirds of respondents to the consultation on the inception impact assessment<sup>113</sup>, including

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<sup>111</sup> Industry feedback shows that in some markets up to 50% of PSPs currently adhering to the SCT Inst. Scheme have taken such an implementation route.

<sup>112</sup> [Instant payments as a new normal: Case study of liquidity impacts for the Finnish market \(helsinki.fi\)](https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12931-Instant-payments_en)

<sup>113</sup> [https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12931-Instant-payments\\_en](https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12931-Instant-payments_en).

67% of PSPs and fintechs (albeit in a number of cases the support of the latter group was subject to the abovementioned features that ensure a proportionate approach). Among the provider community, the leading supporters of such obligation tend to be PSPs that already adhere to the SCT Inst. Scheme and PISPs/fintechs for whom a widespread reachability of IPs is key in order to develop viable and commercially successful service offerings to payment users. Some PSPs that currently do not offer IPs in euro may oppose such an obligation, however, the above-described proportionality features of this option would ease their compliance costs and efforts. At the same time, the overall impact of the initiative may accelerate the achievement of the critical mass of euro IPs in the EU and thus fully unlock the benefits of euro IPs also for those PSPs.

The legal obligation for PSPs to offer IPs in euro is very strongly supported by the payment services users, i.e., consumers, corporates and merchants, including SMEs<sup>114</sup>. In terms of political feasibility, the overwhelming majority of Member States' experts has been supportive of the need to introduce an obligation to offer euro IPs, with the type of proportionality and transitional features contained in this option<sup>115</sup>. This policy option is also very much supported by the ECB.

No administrative burden (such as reporting obligations for example) is expected to derive from this option for the private sector.

Option 1.3 (Legal obligation for all PSPs carrying out euro regular credit transfers to carry out IPs in euro) would be also highly effective in achieving the specific objective 1 aiming to *increase the supply of euro IPs in the EU*, as it would cover all PSPs that carry out regular credit transfers in euro, without exceptions (i.e., 1 146 PSPs as of February 2022). However, it would be less efficient than option 1.2, since its compliance burden would be disproportionate for the types of PSPs that would benefit from the proportionality features incorporated under the previous option (approximately 300 PSPs).

As regards the coherence of the above options with other policies of the EU, while both options 1.2 and 1.3 would be coherent with the Commission's agenda of promoting digital transformation of finance and the EU economy and the objective of updating the project for integration of internal market for euro retail payments, branded as the Single Euro Payments Area (SEPA) as set out in the RPS, option 1.3 is deemed not fully compatible with the current treatment of e-money institutions and payment institutions under the SFD and, therefore, in relative terms, is less coherent than option 1.2.

On the basis of this analysis, option 1.2 is selected as a preferred policy option in terms of achieving the specific objective 1 aiming to *increase the supply of euro IPs in the EU*.

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<sup>114</sup> [Instant payment can become an attractive option for SME merchants | SMEunited](#)

<sup>115</sup> In the CEGBPI meeting of 30 November 2021, the majority of Member States' experts agreed with carving out from this obligation of PSPs depending on whether they carry out euro regular credit transfers as a retail payment service offered to end users (i.e., consumer and corporates). ECOFIN conclusions 22 March 2021 [[pdf \(europa.eu\)](#)], inter alia, highlighted the objectives of the Commission's Retail Payment Strategy which promote the widespread use of IPs.

### Comparison of options aimed to increase the supply of euro IPs in the EU

Option	Effectiveness	Efficiency (cost-effectiveness)	Coherence	Overall score
1.1 Legal obligation for PSPs to be able to receive euro IPs	Rejected at an early stage (see Section 5.2.5)			
1.2 Legal obligation to offer sending and receiving of IPs in euro for PSPs offering the service of regular euro credit transfers to users (with targeted exclusions)	++ Overcomes network externalities issues, ensures wide user access to euro IPs	+ Covers only PSPs which offer payment services to customers and have direct access to payment systems	+ Scope based on SEPA Regulation with 1 targeted exclusion (PIs & EMIs)	++
1.3 Legal obligation for all PSPs carrying out euro regular credit transfers to offer IPs in euro	++ Overcomes network externalities issues, ensures wide user access to IPs	- Inefficient as it includes PSPs carrying out payments only for own account and those without direct access to payment systems	≈ Would require extension of scope of SEPA Regulation and changes to SFD	+
1.4 Mandatory migration for all PSPs from regular euro credit transfers to euro IPs	Rejected at an early stage (see Section 5.2.5)			

Magnitude of impact as compared with the baseline scenario (the baseline is indicated as 0): ++ strongly positive; + positive; -- strongly negative; - negative; ≈ marginal / neutral; ? uncertain; n.a. not applicable.

## 6.2 Address dissuasive fees for euro IPs compared to alternative payment means

Option 2.1 (Obligation for PSPs to apply fees for euro IPs in euro that are not higher than fees of regular credit transfers in euro) would mean that PSPs that currently do not apply transaction fees for regular credit transfers in euro would be obliged not to apply transaction fees on IPs either. Those that do apply such fees would need to ensure that fees for euro IPs are not higher. Therefore, this option, by design, would be considerably more effective than the baseline in attaining the relevant specific objective 2 aiming to *address dissuasive fees for euro IPs compared to alternative payments means*.

In view of the above-mentioned sensitivity of consumers to the level of transaction fees of substitute payment means, this option would ensure that euro IPs are priced in a way that is reasonable and conducive to promoting a widespread and significant increase in the uptake of euro IPs across the EU and, in particular, in those Member States where PSPs currently tend to apply differentiated transaction fees for IPs and regular credit transfers in euro.

In terms of euro IPs at PoI specifically, the effectiveness of this option could be somewhat dampened by the fact that in cases where PSPs currently apply a transaction fee for euro regular credit transfers, they will have discretion to set the fee for euro IPs at that same level. If that were the case, it would leave euro IPs still more expensive for consumers than alternative payment means for PoI such as card or cash payments that do not have any transaction fee. For euro IPs to become a viable alternative that could compete with ICS cards, in particular in the cross-border payment segment, any such remaining transaction fee would have to be absorbed either by PSPs themselves (by

making IPs at PoI cost-free, as is currently the case in some national markets<sup>116</sup>) or by third party providers, such as PISPs, whose solutions would be used to initiate/facilitate IPs at PoI. Feedback from third party providers indicates that they could accept absorption of the cost reduced in this way<sup>117</sup>.

This option therefore is expected to contribute materially to the increase in uptake of euro IPs, both in general and at PoI. Available data (see Table 1 in section 2.3.2) shows that already today, the uptake in Member States where the fees of IPs and regular credit transfers are equalised can be as high as 70%.

The cost impact of this option on PSPs is expected to vary notably by national euro IP markets. As discussed in section 2.3.2, in at least five Euro area Member States (Estonia, Lithuania, the Netherlands, Latvia and Finland) PSPs already charge the same transaction fees for euro IPs and regular credit transfers (which for most payment accounts is set at zero). Hence, no direct impact is expected on PSPs active in those Member States. Indirectly, they would benefit from greater network effects as a result of (i) a greater volume of cross-border euro IPs coming in from other Member States where PSPs currently apply differentiated pricing or where provision of euro IPs is only starting in general and (ii) expected decline in average transaction cost per euro IP (as explained below).

PSPs active in Euro area Member States where premium pricing of euro IPs is applied may experience a negative impact in the form of lower fee revenue. The extent of this impact eventually will depend on the interaction between variables such as: (i) the share of PSPs active in a national market which offer euro IPs at a premium to regular euro credit transfers, (ii) difference between the level of current transaction fees for euro IPs and regular credit transfers applied by those PSPs, and (iii) the average cost per transaction of IPs and its variation in relation to changing IP volume. Given that the data on variables (i), (ii) and (iii) are not systematically available at a PSP level across all Member States, the impact of this policy option on the PSPs that currently apply 'premium' fees for euro IPs is difficult to estimate in quantitative terms. Having said that, the following qualitative observations could be made as regards each of them:

- With respect to variable (i): all else equal, the lower the percentage of PSPs in a certain Member State applying the same transaction fees for IPs and regular credit transfers, the greater the expected impact of this measure in that Member (see the second column of Table 1 in section 2.3.2).
- With respect to variable (ii): all else equal, a greater impact of this measure is expected in those Member States (and PSPs), where the fee 'premium' for IPs compared to fees for regular credit transfers charged by PSPs is greater (please refer to the 4<sup>th</sup> and 5<sup>th</sup> columns in Table 1 in section 2.3.2).
- With respect to variable (iii): feedback from PSPs<sup>118</sup> shows that, all else equal, average transaction cost of an IP declines with an increase in the volume of IPs at the

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<sup>116</sup> Such as Bizum in Spain.

<sup>117</sup> Presentation by ETPPA (European Third Party Providers Association) at the PSMEG meeting of 16 December 2021.

<sup>118</sup> Based on bilateral feedback from individual PSPs. The extent of reported decline in average cost per IP transaction varied, with greater declines indicated by PSPs where the starting difference between the transaction cost for an IP and a regular credit transfer was greater.

level of a PSP, to the extent that some PSPs report its convergence with the average cost of a regular credit transfer. As a result of this initiative, which aims to significantly increase the uptake of euro IPs, this effect is expected to materially mitigate any negative impact of this measure on the profitability of PSPs.

In light of the PSP input referred above, the decline in the average transaction cost of an IP due to the expected increase in the overall uptake of IPs in the EU would also improve the profitability of PSPs that already provide IPs and regular credit transfers at the same transaction fee.

With respect to Member States outside the Euro area, the global impact of this policy option on the local PSPs will be mitigated by the fact that only 13% of them would be covered by this initiative (under option 1.2). The PSPs that currently offer regular credit transfers in euro will have to ensure that fees for euro IPs are not higher. The impact of this policy option on those PSPs will depend on the pricing strategy they will adopt once they start offering euro IPs. In this regard, PSPs based in such Member States generally do apply transaction fees for euro credit transfers. This provides some room for recovering cost for offering euro IPs.

As regards the expected impact on payment service users, customers of PSPs currently charging premium prices for euro IPs are expected to experience a fall in transaction fees for euro IPs. For customers of PSPs which currently do not charge premium prices for euro IPs, there should be no change. Customers of PSPs which do not offer euro IPs at all are unlikely to experience a high level of transaction fees for euro IPs, since PSPs would need to significantly increase the fees for regular euro credit transfers in order to charge the same level of fees for euro IPs.

To mitigate any possible impact of this measure on the profitability of PSPs, it may be that PSPs may raise general payment account maintenance fees or transaction fees for regular credit transfers (which would then allow them to charge the same fees for IPs), which this option does not disallow. However, raising transaction fees for regular credit transfers may prove to be very unpopular with PSPs' customers and, in particular, consumers..

Regarding PSPs which currently or in the future choose to offer euro IPs as the only form of credit transfer, option 2.1 would, in principle, leave full freedom of pricing of IPs. However, such PSPs would still be expected to compete with their peers, in terms of the pricing that the latter set for both euro IPs and euro regular credit transfers. This seems to be confirmed by the fact that, the small number of PSPs that are currently in this situation all offer IPs for free. Also, analysis of certain national markets shows that PSPs may face difficulties introducing fees for private customers once the IP service is initially offered for free.<sup>119</sup> Hence, it can be expected that PSPs that in future would cease to offer non-instant credit transfers would offer IPs at a very competitive price, and most likely for free.

The advantage of option 2.2 (Obligation for PSPs to offer euro IPs at no transaction fee) compared to option 2.1 would be that it could generate greater volume of IPs and, in particular, IPs at PoI, due to a greater offering of services by third party providers such as PISPs whose solutions are used to initiate/facilitate IPs at PoI. Hence, this option would

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<sup>119</sup> [Are instant retail payments becoming the new normal? \(europa.eu\)](https://ec.europa.eu/economy_finance/are-instant-retail-payments-becoming-the-new-normal_en)



be marginally more effective than option 2.2 in contributing to the specific objective 2 aiming to *address dissuasive fees for euro IPs compared to alternative payments means*, and, in turn, the general objective to *improve the efficiency of the retail payments market so as to unlock the benefits for EU citizens and businesses by significantly increasing the uptake of euro IPs in the EU*.

Option 2.2 would have the same impact as option 2.1 on PSPs which currently do not charge for regular credit transfers, but would have a greater impact on PSPs which currently charge for regular credit transfers. As regards PoI payments facilitated by third party providers, those PSPs would have to bear a significantly higher cost of compliance, as the operational costs underlying IPs that would be transferred to third party providers under option 2.1 would under option 2.2 effectively remain with PSPs. On the other hand, this option would be extremely favourable for the business model and profitability of third party providers.

This option, compared to option 2.1, may lead to a greater possibility of PSPs attempting to offset the decline in revenue by raising general fees or cutting costs in other operational areas. However, this option would not introduce cross-subsidisation in the payments sector, as it is already well-established practice. For example cross-subsidisation of different products is common practice in the banking sector, where a material part of the revenue is generated from the interest rate differential between the interest rate offered on savings accounts and that charged on loans. Currently, many PSPs offer credit transfers for free, although the transaction costs are not zero, thus necessarily subsidising them from other revenue sources. Estimating a more precise impact of this policy option on cross-subsidisation in quantitative terms was not feasible given that the cross-subsidisation could take a number of different paths and forms.

Most Member States are expected to be supportive of an intervention on transaction fees for euro IPs. In the context of discussions with national experts<sup>120</sup>, representatives from 12 Member States expressed support for option 2.1, while three more Member States were also open to some form of quantitative limit on the pricing of IPs. Only four Member States stated their disagreement with any intervention in the area of pricing with remaining Member States reserving their position. Consumers and merchants, like fintechs/third party providers, have expressed a very strong preference for option 2.2 in the long run, but could be willing, in the medium run, to settle for option 2.1<sup>121</sup>.

As regards the coherence of the above options with other policies of the EU, both options 2.1 and 2.2 are seen as being coherent with the Commission's agenda of promoting digital transformation of finance and the EU economy, and supporting open strategic autonomy, with option 2.1 being marginally more coherent from the point of fostering competition in the internal market.

Option 2.1 is therefore selected as a preferred policy to achieve the specific objective 2 aiming to address dissuasive fees for euro IPs compared to alternative payment means.

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<sup>120</sup> CEBBPI of 30 November 2021, minutes available here: <https://ec.europa.eu/transparency/expert-groups-register/screen/meetings/consult?lang=en&meetingId=33915&fromExpertGroups=true> .

<sup>121</sup> PSMEG meeting of 16 December 2021, minutes available here <https://ec.europa.eu/transparency/expert-groups-register/screen/meetings/consult?lang=en&meetingId=38474&fromExpertGroups=true> .



*Comparison of options aimed to address dissuasive fees for euro IPs compared to alternative payment means*

Option	Effectiveness	Efficiency (cost-effectiveness)	Coherence	Overall score
2.1 Obligation for PSPs to offer IPs in euro at fees not higher than fees for regular credit transfers	++ Given the price-sensitivity of users to payments, it should achieve higher uptake of IPs	≈ Creates possibility of cross-subsidisation between products but this is already common practice in banking	++ Permits price competition between PSPs on euro IPs	++
2.2 Obligation for PSPs to offer euro IPs at no transaction fee	++ Given the price-sensitivity of users to payments, it should achieve higher uptake of IPs	– Goes beyond the minimum necessary to achieve greater uptake of IPs	+ Eliminates any possibility of price competition on euro IPs	+

*Magnitude of impact as compared with the baseline scenario (the baseline is indicated as 0): ++ strongly positive; + positive; – – strongly negative; – negative; ≈ marginal / neutral; ? uncertain; n.a. not applicable.*

### **6.3 Simplify and enhance the efficiency of the sanctions screening process of euro IPs**

Option 3.1 (Eliminate overlaps in transaction-based screening) could potentially bring about some reduction in the rate of ‘flagged’ (and therefore rejected) IP transactions as it would remove the current duplication of screening, whereby each cross-border (and, in some Member States, domestic) IP transaction is screened twice with regard to the names of a payer and a payee, i.e., first, by the payer PSP and, again, by the payee PSP.

With the removal of the duplication of screening of the same data elements, the chances of generating a flag would be naturally reduced as well. However, as soon as the payer PSP would be faced with a flag, the transaction would need to be rejected since there would not be sufficient time to ensure manual verification. Theoretically, a potential solution to this could be to start the 10 second timer only upon the completion of the sanctions screening verification of ‘flagged’ transactions by the payer PSP. However, it would still be impossible for the payer PSP to manually review them in a time short enough to ensure that the transaction is completed fast enough to be considered instant.

As in the baseline, due to the persisting presence of the significant number of ‘false positive’ flags that cannot be dealt with sufficiently quickly to ensure the successful transmission of the transaction, the approach under this option would also remain problematic for the successful uptake of IPs, including at PoI.

The approach described under option 3.2 (Replace transaction-based screening with regular updates by PSPs of own customers lists against applicable EU sanctions lists (‘SEPA domestic’ approach)) is already used by PSPs in some Member States for domestic IPs (as well as domestic regular credit transfers)<sup>122</sup>. The cross-border SEPA IPs

<sup>122</sup> The other Member States may be inspired to apply the same approach also to domestic regular credit transfers.

would be treated in the same way hence the description of this option as a ‘SEPA domestic’ approach. It would replace the approach based on transaction-based screening, against the EU sanctions lists, of all individual domestic and cross-border euro IP transactions.

Replacing the transaction-based screening approach with the ‘SEPA domestic’ approach to comply with PSPs’ screening obligations vis-à-vis the EU-wide sanctions lists would ensure that sanctions screening obligations are complied with by PSPs as effectively as is currently the case. By accurately and timely reflecting in their systems the latest information on all the applicable sanctions lists they would be able to i) prevent the initiation of transactions from payment accounts belonging to designated persons or entities, and ii) immediately freeze funds made available to them.

In terms of compliance costs, this policy option is expected to deliver significant operational savings for PSPs, which would not occur under the baseline or would occur at a substantially lower scale under option 3.1. Those savings, depending on the level of IP uptake, could be estimated to fall in the range of EUR 5.5 to 7.6 billion per year (see Annex 4).

Therefore, this approach would ensure that the compliance with the sanctions screening obligations is more efficient. It would lead to a material reduction of ‘false positive’ hits<sup>123</sup> and, thus would significantly reduce the rejection rates currently observed for euro cross-border IPs (and, in some Member States, also euro domestic IPs). Thus, this option would be more effective than option 3.1 in contributing to the specific objective aiming to *simplify and enhance the efficiency of the sanctions screening process of euro IPs*. It would also be more conducive than option 3.1 to promoting the use of IPs at PoI, while not lowering the quality of the sanctions screening overall.

Overall, this option would introduce important efficiency improvements in terms of reducing frictions to IPs due to sanctions screening obligations, without any adverse effect on the effectiveness of PSPs’ compliance with their obligations in terms of sanctions screening or the tracing of transactions for AML purposes.

In terms of coherence of the above policy options with the other initiatives and policies of the EU, options 3.1 and 3.2 would be coherent with the effective compliance of EU PSPs with GDPR as well as the EU sanctions regulations and AML legislation, as they would set a clear and harmonised set of rules that all PSPs would have to comply with, and do not introduce any practices which have not been successfully tested in certain Member States. In sum, as per the table below option 3.2 is the preferred option in this area.

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<sup>123</sup> As evidenced by responses from PSP (that apply this approach to the sanctions screening of domestic IPs) to the targeted consultation.

*Comparison of options aimed to simplify and enhance the efficiency of the sanctions screening process for euro IPs*

Option	Effectiveness	Efficiency (cost - effectiveness)	Coherence	Overall score
3.1 Eliminate overlaps in transaction screening	+	+	+	+
	It may slightly reduce false positive hits for IPs	Creates some limited savings for PSPs compared with current practice	Fully coherent with sanctions screening obligations	
3.2 'SEPA domestic' approach (replace transaction-based screening with regular updates by PSPs of own customers lists against applicable EU sanctions lists)	++	+++	+	++
	Likely to eliminate false positive hits for IPs	Generates major cost savings for PSPs compared with current practice	Fully coherent with sanctions screening obligations	

*Magnitude of impact as compared with the baseline scenario (the baseline is indicated as 0): +++ very strongly positive; ++ strongly positive; + positive; -- strongly negative; - negative; ≈ marginal/neutral; ? uncertain; n.a. not applicable.*

#### **6.4 Increase payer confidence in euro IPs with regard to risk of fraud and errors**

Under option 4.1 (An obligation for PSPs to ensure the availability of a service allowing a payer to have an immediate check of the 'match' between the IBAN and the name of a payee, before confirming an IP), the rate of transactions sent to a wrong payee as a result of social engineering fraud or errors is expected to be reduced. According to the provider of the IBAN-name check solution in the Netherlands, there has been an 81% drop in fraud/scams taking the form of invoice fraud, and a 67% drop in misdirected payments due to payer errors since the setup of the IBAN-name check service in 2017<sup>124</sup>. Given that the extent of APP fraud in 2020 for all SEPA euro credit transfers, including IPs, in the EU is estimated at approximately EUR 323 million, there is enormous capacity for reduction of losses incurred by EU citizens and businesses resulting from such solutions.

In the UK<sup>125</sup> between Q3 2019 and Q4 2020, on a trend-adjusted basis, for the largest PSPs offering the Confirmation of Payee (CoP) service to their clients, there has been a 31% drop of payments sent to a wrong payee in terms of number of transactions, and a 28% drop in terms of value. It is considered that the reduction would be more significant if all PSPs implemented the service as currently, CoP checks cannot be done in around 15% of IP transfers in the UK. This means fraudsters can easily find out which institutions currently do not offer the CoP service and direct their activities to customers of those institutions. This confirms that for the solution considered under this option to be effective, it must be required with respect to all PSPs offering IPs. It should be noted, that in view of the evidence of effectiveness of the CoP service, the UK authorities are

<sup>124</sup> <https://www.surepay.nl/en/about-surepay/factsheet/>; see also brochure available here: [SurePay - Brochure SurePay Confirmation of Payee](#)

<sup>125</sup> [CP21/6 Confirmation of Payee call for views \(psr.org.uk\)](#).

considering to invite smaller, non-participating PSPs to start providing the service to their clients.<sup>126</sup>

Based on the feedback from the Netherlands and UK markets, it seems that an IBAN-name verification service would be highly effective in preventing errors and reducing certain types of APP scams, in particular invoice fraud. In cases of impersonation scams, the payer is more likely to disregard the warning of no match and proceed with the payment. It also must be recognised that there may be some instances of fraud where the name given to the victim will match the account and the CoP service will not be able to prevent it<sup>127</sup>. Despite these limitations, a service allowing a payer to have an immediate check of the ‘match’ between the IBAN and the name of a payee, before confirming an IP, would be an important building block in the overall errors and fraud prevention and consumer protection efforts and very importantly, would be effective in enhancing consumers’ and corporates’ trust in IPs.

Such a solution would respond to consumer expectations, giving them greater assurance that they are sending payments to the intended recipient. A clear majority (93%) of consumer respondents to the open public consultation considered it being important to have safeguards regarding the risk of fraud or error, in the form of IBAN name check service, either free or for a fee. This is supported by the feedback received from consumer organisations. The absence of a solution whereby PSPs would enable verification of the match between the name of the payee account and the IBAN was described as “absurd” by BEUC, who considers that it is essential that such verification be made compulsory<sup>128</sup>.

This solution is likely to be supported by Member States, as reflected by national experts in the Commission expert group<sup>129</sup>, and also in point 16 of the ECOFIN conclusions<sup>130</sup> issued on 22 March 2021 which supported the idea that the Confirmation of Payee is an important element of consumers’ trust.

Given that IBAN-name check solutions are still very rare (applied on a broader scale only in one Member State or provided by individual banks in others), it is difficult to provide exact estimates of the implementation cost. The costs would depend on the implementation method opted for by PSPs, which would not be imposed in the legislative proposal, and the level of integration of such solutions with other fraud prevention measures of PSP.

With respect to the solution implemented in the Netherlands, the two main implementation efforts required from PSPs involved (i) integrating an API, allowing for account name verification, into the PSP’s online / mobile banking environment, and (ii) adjusting own customer databases to ensure that the algorithm can match the payment

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<sup>126</sup> <https://www.psr.org.uk/media/ktonkca3/psr-rp21-1-confirmation-of-payee-response-paper-oct-2021.pdf>.

<sup>127</sup> For example, in case of the use of money mules (innocent victims who are duped by fraudsters into laundering defrauded money via their bank accounts; or in case of accounts opened following identity theft).

<sup>128</sup> [https://www.beuc.eu/publications/beuc-x-2021-027\\_consumers\\_and\\_instant\\_payments.pdf](https://www.beuc.eu/publications/beuc-x-2021-027_consumers_and_instant_payments.pdf).

<sup>129</sup> Commission Expert Group on Banking, Payments and Insurance (payments formation).

<sup>130</sup> <https://data.consilium.europa.eu/doc/document/ST-7225-2021-INIT/en/pdf>.

data provided by the payer with the payee's PSP customer data. In addition to these one-off investment costs, the service provider charges fees per check performed (with the fee level decreasing as the volume of checks increases). PSPs are also likely to have running costs associated with maintenance and support.

Based on the data obtained from one UK PSP offering the CoP service and four out of five Dutch PSPs offering the IBAN-name check service, there appears to be a correlation between the level of the (one off and ongoing) costs and the size of a PSP. The one-off implementation cost ranged between EUR 10 000 and EUR 2 million, which can be explained by the fact that some of the larger PSPs tend to have many more legacy systems that require adjustments, while smaller, challenger PSPs have newer, more agile technological capabilities. In terms of the ongoing cost, they ranged between EUR several thousand per year to EUR 350 000 per year, with fees paid to the service provider per check performed constituting the largest chunk.

Under this option, EU PSPs would be allowed to decide on the best implementation approach. Solutions already provided by fintech companies in some Member States could be used by PSPs in other Member States, and this could open up the market for more providers of such services. Solutions could also be collectively implemented through an industry-wide arrangement or scheme, which could to a certain extent leverage on advances made in the context existing industry-wide initiatives.<sup>131</sup>

Costs of implementation of this option are expected to be eased by the fact that the PSPs are likely to leverage on their previous investments and experience gained when developing open banking APIs under PSD2. Those costs could be further mitigated by extending the scope of application of the measure since the solutions put in place could be also used for the verification of payee of regular credit transfers (representing synergies between different products offered by the same PSP). Moreover, with the strengthened consumer protection leading to an increased use of IPs, which carry more detailed customer data compared to cash or cheques, PSPs would be able to develop and use more sophisticated fraud prevention tools. Finally, costs would also be partially offset by operational savings arising from reduced number of complaints to be processed by PSPs which are costly to investigate and may even involve goodwill payments (e.g. made by some PSPs to avoid reputational damage).

Approximately 3 200 PSPs would incur implementation costs, the level of which would depend on their size as indicated above. Some compensatory internal administrative savings can be envisaged in PSPs, due to a reduced number of complaints and requests for refunds for fraudulent and erroneous IPs; over time, these savings can be expected to

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<sup>131</sup> Examples include potential changes to the SCT Inst. Scheme, which are currently under consultation ([https://www.europeanpaymentscouncil.eu/sites/default/files/kb/file/2021-09/ECP190-21%20\\_Press%20Release\\_%20Public%20consultation%20on%20the%20change%20requests%20for%20the%202023%20SEPA%20payment%20scheme%20rulebooks\\_0.pdf](https://www.europeanpaymentscouncil.eu/sites/default/files/kb/file/2021-09/ECP190-21%20_Press%20Release_%20Public%20consultation%20on%20the%20change%20requests%20for%20the%202023%20SEPA%20payment%20scheme%20rulebooks_0.pdf)) and which, inter alia, include using, in addition to IBANs, attributes such as aliases or proxies in the payment messages; the ERPB work on increasing transparency for retail payments end-users, which includes investigation of possible solutions to tackle the challenges related to the difference between commercial names and legal names of companies acting as payees; or the work on the SEPA Payment Account Access Scheme, which may include solutions related to IBAN-name check of the payer.

offset the one-off investment cost. The reduction in fraud would be a benefit to society as a whole.

PSPs would be free to offer the service for a fee, however, it is expected that competitive forces, consumer expectations and a possibility of the abovementioned operational savings (which would increase in step with a greater use of the service) would help to keep its level low. Finally, introducing a harmonised solution at this juncture would save the costs which would otherwise be incurred at a later stage in order to ensure interoperability of purely national solutions that are developed by national PSP communities or individual PSPs. Thus, the efficiency of this solution is assessed as neutral/marginal.

This option would be coherent with the EU policy goals of ensuring effective consumer protection and empowering consumers to effectively protect their economic interests. Moreover, the experience with the existing solutions (offered to EU PSPs by SurePay or SWIFT, or imposed on PSPs in the UK while it still formed part of the EU) demonstrates that such solutions can be designed in full compliance with GDPR. This option would thus be coherent with the EU data protection requirements.

Under option 4.2 (Grant payers the right to ask for a refund under certain circumstances, e.g. where a payer can prove that there was a fraud or a mistake as their intention was to authorise an IP to a different payee), payers would have the right to ask for a refund of an IP transaction where they can prove that their intention was to send the funds to another beneficiary.

This would be in line with the expectation of consumer representatives. Some form of a refund right for the consumer has been called for by BEUC in its response to the public consultation.

In cases where the payer can provide such evidence, the solution would be effective in providing adequate protection. However, in other cases, such as person-to-person payments without a pre-existing contractual relationship, providing sufficient evidence could be very difficult. Moreover, in order for the solution to have any meaningful effectiveness, the period during which the refund could be requested should be sufficiently long to reflect the amount of time it may take a payer to discover that funds were paid to a wrong payee in error or as a result of fraud (which can take several weeks<sup>132</sup>).

In terms of efficiency, this option would not require any major upfront implementation costs from PSPs, in contrast to setting up of a solution that would be required under option 4.1. On the other hand, since in such cases the funds are unlikely to stay on the account of the payee long enough for the funds to be recovered, PSPs would incur ongoing losses, which could represent a substantial share<sup>133</sup> of the estimated APP fraud for all SEPA credit transfers, estimated at EUR 323 million in 2020. Also, this figure is

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<sup>132</sup> According to the industry, the average time to discover that the transaction was made to a fraudster can range between approx. 2 and 6 weeks.

<sup>133</sup> According to the EBA, 80% of fraud in relation to three types of payment means (credit transfers, cash, card payments) resulted in losses in the second half of 2020 for a sample of 14 EEA countries [[Discussion Paper on payment fraud data received under PSD2 \(europa.eu\)](#)].



likely to be under-estimated given that consumers, being aware of the onerous conditions for a refund under current legislation, may not always complain to the PSP. Importantly, more lenient refund conditions may give rise to greater moral hazard in the form of unfounded refund claims (e.g. where the payer changed their mind, did not like the product, etc.) and the associated compliance costs for PSPs.

While this option would be coherent with the EU policy goals of ensuring effective consumer protection, it would not be consistent with the principle of irrevocability of all credit transfers, including IPs, as laid out in PSD2. The initiative on IPs would not be appropriate to introduce changes to the very nature of credit transfers, including IPs.<sup>134</sup> As clarified above, this option would not create any consequences in terms of data protection.

Overall, this option is considered to be more effective than the baseline, but less effective than option 4.1, both with respect to domestic and cross-border payments. Efficiency is assessed as neutral, considering that on the one hand, unlike in case of option 4.1, there would be no implementation costs, but on the other hand the ongoing costs could be significant, especially if the rate of fraud increases or moral hazard is not effectively contained. Coherence is assessed as overall neutral. On the basis of this analysis, option 4.1 is selected as a preferred policy option.

*Comparison of options aimed at reducing the risk of IPs being sent to the wrong payee due to fraud and errors*

Option	Effectiveness	Efficiency (cost-effectiveness)	Coherence	Overall score
4.1. Obligation for PSPs to provide an "IBAN verification" service, before confirming an IP	++ Positive results in countries where such a system has been implemented	≈ One-off implementation cost for PSPs, but they may charge for the service	++ System already exists and has been tested domestically, no changes to other EU legislation needed	++
4.2. Payer's right to a refund under certain circumstances	++ An ex-post mechanism does not prevent fraud/errors (ex-ante approach better)	≈ Recurrent costs for PSPs due to refund claims. Risk of moral hazard.	≈ Incoherent with the principle of irrevocability of credit transfers (incl. IPs), as laid out in PSD2.	≈
4.3 Obligation for payee's PSP to temporarily 'freeze' funds credited to payee's account	Rejected at an early stage (see Section 2.5.2)			

*Magnitude of impact as compared with the baseline scenario (the baseline is indicated as 0): ++ strongly positive; + positive; -- strongly negative; - negative; ≈ marginal/neutral; ? uncertain; n.a. not applicable.*

<sup>134</sup> Issues such as the conditions for executing credit transfers, including IPs (such as the use of the name of the payee as an additional mandatory element for correct execution of the transaction, in addition to the IBAN of the payee), or PSP liability regime related to the execution of credit transfer transactions, including IPs, may be further assessed in the context of PSD2 review, due in 2023.

## 7 PREFERRED OPTION

### 7.1 Effectiveness

The principal objective of the present initiative is to significantly increase the uptake of euro IPs in the EU. Effective achievement of this objective should unlock the benefits and efficiency gains for EU consumers, corporates, fintechs, banks and society in general. It would also help increase choice for electronic payments, particularly for cross-border payments at PoI. The initiative has strong support from the EU SME association, SMEUnited<sup>135</sup>.

The proposed set of preferred options complement each other and, taken together, constitute a powerful package of measures that would, in the most effective manner, both boost the supply of euro IPs by PSPs and facilitate a greater demand for them by payment service users, including consumers, corporates, merchants and public administrations.<sup>136</sup> More specifically, the obligation for most EU PSPs to offer euro IPs will ensure an EU-wide reachability and accessibility of euro IPs, doing away effectively with disincentives for PSPs to adhere to the SCT Inst. Scheme due to the current lack of a critical mass of participating PSPs and euro IPs in certain local markets and in the EU more generally. The efforts of PSPs and fintechs to roll out IP-based services both as on-line transfers and as payments at PoI will be aided by a harmonised sanctions screening approach that is based on the requirement to update, regularly and frequently, the internal records of a PSP's own customers against the latest information on the persons and entities that are subject to restrictive measures. This new sanctions screening approach will be effective in materially driving down the rate of incorrectly rejected IPs, which generates unwarranted and significant operational burdens for the industry and weakens the reliability of IPs from the perspective of users. The obligation for PSPs to ensure that any fees related to IPs are not higher than fees applicable to euro regular credit transfers is expected to be highly effective in generating user demand for IPs, in view of users' sensitivity to the absence of transaction-based fees for substitute payments means (cash, cards). Last but not least, user demand for euro IPs will be further enhanced by strengthening their confidence through protection against fraud and errors, by requiring PSPs to offer a service warning them about cases where the name on an account identified through the IBAN provided by the payer and the name of a payee indicated by the payer do not match.

It is reasonable to expect that with the set of the preferred options, IPs would become the most prevalent type of euro credit transfer within 3-5 years of their implementation. Achieving this will deliver, in addition to the benefits for specific stakeholder groups described in this assessment, certain broader societal benefits. A mass adoption of IPs can act as a supporting factor for a quicker post-pandemic recovery of the European

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<sup>135</sup> See [this statement on the SMEUnited website](#), and the intervention by a Director of SMEUnited at a [CEPS/ECRI seminar on instant payments of 5 May 2022](#).

<sup>136</sup> While other combinations of policy options are theoretically possible (for instance, not taking an action in one of the areas analysed), their effectiveness would be considerably lower. The analysis has shown that the most effective impact on increasing the uptake of euro IPs at the EU level could be achieved only when all identified problem drivers are addressed with directly targeted and accordingly designed regulatory measures.

economy as money is reinjected into the economy at a faster pace: due to their very nature, IPs induce a higher velocity of money circulation in the economy. High velocity of money is usually associated with a dynamic economy, whereas a low money velocity is usually found in economies going through recessions.<sup>137</sup> This is connected to inefficiencies in the payment system that are known as ‘payment float’. In this regard, the study by Deloitte<sup>138</sup> argues that those inefficiencies limit short term aggregate economic activity as the money is locked in the financial system due to delay in processing payments. If this money were “unlocked”, it could boost short-term consumption and investment. Based on the analytical approach developed by Deloitte, it is estimated that IPs, depending on the extent of their eventual uptake in the EU, could reduce the payment float and generate the related annual economic efficiency gains for PSP clients in the range of EUR 1.34 billion (under the assumption of 50% uptake of euro IPs) to EUR 1.84 billion (under the assumption of 70% of uptake of euro IPs).<sup>139</sup> See Annex 8 for a more detailed analysis of the payment float and the impacts arising from its reduction.

## 7.2 Efficiency

The preferred options have been designed to effectively achieve the relevant specific objectives in the most cost efficient and proportionate way. Most of the implementation costs will fall upon PSPs, however, the impact will vary significantly from one PSP to another due to the varying level of their ‘starting position’.

The efficiency of the legal obligation to offer euro IPs rests in its focus on the estimated 800-900 PSPs whose participation in the SCT Inst. Scheme is the most needed to ensure the widespread reachability and accessibility of euro IPs. PSPs falling in the scope of this obligation will have discretion to alleviate their compliance burden by spreading implementation efforts over time, by complying first with the obligation to receive, and, later, with the obligation to send IPs. Several factors are expected to make the obligation proportionate for PSPs operating in non-Euro area Member States (see Annex 3).

The relative efficiency of the obligation for PSPs to ensure that any fees related to euro IPs are not higher than fees applicable to euro regular credit transfers is based on several factors. They include the possibility for PSPs to apply fees on euro IPs that are the same as those for regular credit transfers (instead of being obliged to offer them for free). Moreover, the average cost per IP transaction declines with an increase in the uptake of IPs at the level of a PSP. Finally, in a number of Member States PSPs already, by way of their current pricing policy of IPs, effectively comply with this option.

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<sup>137</sup> Study by Fidelis Consulting; <https://op.europa.eu/en/publication-detail/-/publication/735d5b9d-0c5e-11ec-adb1-01aa75ed71a1/language-en/format-PDF/source-228716981>.

<sup>138</sup> Economic impact of real-time payments, July 2019 [[deloitte-uk-economic-impact-of-real-time-payments-report-vocalink-mastercard-april-2019.pdf](https://www.deloitte.com/uk/en/insights/industry/banking-and-financial-services/economic-impact-of-real-time-payments-report-vocalink-mastercard-april-2019.pdf)].

<sup>139</sup> In the study of Fidelis Consulting these benefits are estimated to fall in the range of EUR 0.68 billion to EUR 1.83 billion per year, due to a broader range of scenarios considered; <https://op.europa.eu/en/publication-detail/-/publication/735d5b9d-0c5e-11ec-adb1-01aa75ed71a1/language-en/format-PDF/source-228716981>.

Efficiency of the preferred option to offer a service allowing a payer to have an immediate check between the IBAN and the name of the payee rests in leaving discretion to PSPs to comply with the obligation in the most cost-effective manner, by choosing the most appropriate implementation option, e.g., develop the service internally, outsource it to a third party service provider or to come up with an industry-wide solution. The efficiency of this option is further underscored by the possibility that EU PSPs may leverage on the work already done in the context of implementing Application Programming Interfaces (APIs) under PSD2 and development of various EPC schemes, and by the operational savings that would arise over time from not having to handle the prevented errors and fraud.

Compliance costs related to the proposed harmonised approach for the sanctions screening of IPs are expected to be insignificant at the industry level due to the fact that most PSPs already today update their customer lists against all applicable sanctions lists on a daily basis and some Member States already apply the proposed approach for purely domestic IP transactions. Importantly, the proposed approach would generate material operational cost savings that are estimated to fall in the range of EUR 5.5-7.6 billion per year, depending on the uptake of euro IPs and that should mitigate, if not offset, at the industry level, the other compliance costs of this entire legislative initiative.

A widespread adoption of IPs is also expected to displace cheque payments. In this regard, the study of Deloitte<sup>140</sup> showed that additional IP transactions lead to a 'significant decrease in the volume of cheque transactions per capita'. PSPs are expected to realise a significant share of the total estimated savings of EUR 2.3 billion per year to society, resulting from such displacement (please see section 2.2.1).

### 7.3 Coherence

In addition to the benefits of the preferred options in each of the areas (offering of IPs, level of fees on IPs, sanctions screening and payer protection against errors and fraud) as described in Section 6, the coherence and complementarity of the preferred options with each other, and their benefits considered as a package should be emphasised. It is estimated that the four preferred options when applied together will interact with each other positively in such a way as to magnify the benefits of each option individually.

EU action to promote the uptake of euro IPs interacts with several EU strategic initiatives as well as sectoral policies. The coherence of the proposed package of preferred policy options with those other EU policies and initiatives is assessed as follows:

- The initiative is coherent with and necessary to complete the project of the internal market integration for euro retail payments, branded as the Single Euro Payments Area (SEPA), and with the objectives of the Commission's RPS regarding increasingly digital and instant payment solutions with pan-European reach, and competitive home-grown and pan-European payment solutions supporting Europe's economic and financial sovereignty<sup>141</sup>. In particular, as stated in section 1.3 above,

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<sup>140</sup> Economic impact of real-time payments, July 2019 [[deloitte-uk-economic-impact-of-real-time-payments-report-vocalink-mastercard-april-2019.pdf](#)].

<sup>141</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020DC0592&from=EN>.

based on a political decision taken at its adoption in 2012, the SEPA Regulation already applies to payments in euro in all EU Member States, including non-Euro area Member States, given the importance of the euro as the single currency under the EU Treaties<sup>142</sup>, and the need for all EU citizens to benefit from the same rights as regards payments in euro, regardless of where they live in the EU<sup>143</sup>. The present initiative does not change the pan-EU geographical scope of SEPA, but reflects and builds on it.

- The initiative is fully coherent with statements<sup>144</sup> of EFIP, which stressed how critical it is for PSPs to implement IPs quickly so that they become available to end users at the pan-European level, called on PSPs to offer competitive pricing of IPs to merchants and users, and most recently explicitly welcomed the European Commission's intention to put forward an initiative to increase the uptake of IPs in the EU, by ensuring their full availability to consumers and businesses, enhancing payer trust and removing operational frictions.
- This initiative is coherent with the ongoing work of the Euro Retail Payments Board<sup>145</sup> focused on removing obstacles for cross-border acceptance of IP solutions at PoI, such as the work on an interoperability framework for mobile payment solutions based on SEPA credit transfers including IPs, as well as the work of the European Payments Council on a single standard for QR-codes, as QR solutions today suffer from lack of standardisation at EU level. It would support industry initiatives for developing cross-border PoI solutions based on IPs, such as for example the European Payments Initiative (EPI)<sup>146</sup>. This work and initiatives have been supported by the Commission in its RPS as having the potential to add value to the SEPA Instant Credit Transfer (SCT Inst.) Scheme, improve the usability of instant payment solutions and ultimately to support the uptake of instant payments.
- The initiative would be fully consistent with other Commission initiatives laid out in the Commission's *Digital Finance Strategy for the EU* adopted on 24 September 2020, aimed at promoting digital transformation of finance and the EU economy and removing fragmentation in the Digital Single Market, such as an EU-wide interoperable European Digital Identity Wallet<sup>147</sup> or the rules set out in the Digital Markets Act proposal<sup>148</sup>. The former could be used as a means to distribute IPs, including for payments at PoI, while the latter aims to address the current issues

<sup>142</sup> Article 3(4) TEU and Articles 119 and 133 TFEU

<sup>143</sup> See the impact assessment accompanying the Commission's 2010 proposal for a SEPA Regulation, SEC(2010) 1584 final.

<sup>144</sup> 2017 EFIP statement [ [https://www.ecb.europa.eu/paym/groups/pdf/efip/EFIP\\_statement\\_from\\_the\\_1st\\_meeting.pdf](https://www.ecb.europa.eu/paym/groups/pdf/efip/EFIP_statement_from_the_1st_meeting.pdf) ]; 2019 EFIP statement [ [https://www.ecb.europa.eu/paym/groups/pdf/efip/EFIP\\_statement\\_from\\_the\\_2nd\\_meeting.pdf](https://www.ecb.europa.eu/paym/groups/pdf/efip/EFIP_statement_from_the_2nd_meeting.pdf) ]; 2022 EFIP statement [ [https://www.ecb.europa.eu/paym/groups/pdf/efip/EFIP\\_statement\\_from\\_the\\_3rd\\_meeting.pdf](https://www.ecb.europa.eu/paym/groups/pdf/efip/EFIP_statement_from_the_3rd_meeting.pdf) ]

<sup>145</sup> The Euro Retail Payments Board (ERPB) is a high-level body chaired by the ECB, bringing together the supply and demand side of the European payments industry.

<sup>146</sup> <https://www.epicompany.eu/>.

<sup>147</sup> [resource.html \(europa.eu\)](https://resource.html.europa.eu/).

<sup>148</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020PC0842&from=en>.



faced by PSPs and fintechs when developing IP-based PoI solutions and trying to access near field communication (NFC) antennas available on certain mobile platforms (such as phones or tablets) and used for effective contactless payments.

- The initiative is expected to be coherent with the ongoing work on Central Bank Digital Currency ('digital euro'). The potential issuing of digital euro will enable the co-existence of digital euro holdings and of commercial bank money funds. Users will require to transfer at par funds held in payment accounts at their Account Servicing PSP to the digital euro holdings in the ECB/Eurosystem books and make their day-by-day payments in digital euro, and, in the opposite direction, to transfer amounts of digital euro at par to their payment accounts. These transfers in both directions are the equivalent digital form of the current physical convertibility that takes place from the commercial bank euro to the central bank euro and vice versa, for instance when banknotes and coins are credited/withdrawn to/from a payment account at the ATM or in a branch. In practical terms, it will be necessary to set-up a mechanism able to fund and defund the holdings in digital euro of the users in exchange of their commercial bank payment account funds. With the evolutions in the retail payments landscape and expectations of users, it would seem difficult to imagine that transactions with a digital euro would not have the potential to be instant. Other synergies between IPs and digital euro are also possible but their full assessment depends on the final design features of CBDC.
- The initiative is coherent with Member States' efforts to limit the size of the shadow economy by improving tax collection. To this end, a number of EU governments (e.g., Greece, Italy, Hungary, where reliance on cash is relatively high<sup>149</sup>) recently announced various measures that incentivize economic actors to use digital payments, including IPs. 45% of all types of respondents to the open public consultation who expressed their view on this matter, also thought that IPs would have fiscal benefits by limiting the extent of tax fraud and tax evasion. According to Deloitte<sup>150</sup>, the shadow economy accounts for about 7-12% of GDP in developed countries. Based on the analytical model developed by Deloitte, it could be estimated that IPs, depending on the extent of their eventual uptake in the EU, could lead to an increase in annual tax receipts in the range of EUR 0.25 billion to EUR 1.59 billion.<sup>151</sup> Another study<sup>152</sup> of 25 EU countries estimated that 10 additional cashless transactions per capita per year reduce the VAT gap (defined as the difference between theoretical VAT liability and actual VAT revenue) by 0.69 percentage points. The projections by ACI Worldwide<sup>153</sup> for the relative growth of various types of payment means for a number of EU Member States broadly support such

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<sup>149</sup> A recent ECB study showed that 73% of all transactions in the Euro area were carried out using cash, representing 48% of the total value of all payments made by consumers. ECB study on the payment attitudes of consumers in the Euro area. 2 December 2020 [<https://www.ecb.europa.eu/pub/pdf/other/ecb.spacereport202012~bb2038bbb6.en.pdf>].

<sup>150</sup> Economic impact of real-time payments, July 2019 [[deloitte-uk-economic-impact-of-real-time-payments-report-vocalink-mastercard-april-2019.pdf](https://deloitte-uk-economic-impact-of-real-time-payments-report-vocalink-mastercard-april-2019.pdf)].

<sup>151</sup> Study by Fidelis Consulting; <https://op.europa.eu/en/publication-detail/-/publication/735d5b9d-0c5e-11ec-adb1-01aa75ed71a1/language-en/format-PDF/source-228716981>.

<sup>152</sup> Immordino, G., & Russo, F. F., Cashless payments and tax evasion; European Journal of Political Economy, Volume 55, December 2018, Pages 36-43.

<sup>153</sup> [2021-Prime-Time-Report.pdf](https://www.aciworldwide.com/2021-Prime-Time-Report.pdf) (aciworldwide.com).



estimated benefits, as they predict, in relative terms, decreases in paper-based payments by 2025 which would be offset by increases in IPs and other electronic payments.

- The initiative is coherent with the other sectoral legislation in the area of financial services (such as the Settlement Finality Directive, which currently excludes Payment Institutions and Electronic Money Institutions from participation in payment systems designated under that Directive and also PSD2<sup>154</sup>) as well as broad horizontal policies and objectives of the Commission such as effective consumer protection, application of EU sanctions against designated persons and entities, competition in the internal market, broader financial inclusion<sup>155</sup>, enhanced public health<sup>156</sup> and environmental protection. The initiative introduces a targeted and limited derogation in the Regulation on cross-border payments<sup>157</sup> to ensure the achievement of the policy objective to address the dissuasive fees for euro IPs.
- The initiative is fully consistent with Commission's Communication *Towards a stronger international role of the euro*<sup>158</sup>, in which the Commission supported a fully integrated instant payment system in the EU, to reduce the risks and the vulnerabilities in retail payment systems and to increase the autonomy of existing payment solutions. It is also consistent with the Commission's 2021 Communication on *"The European economic and financial system: fostering openness, strength and resilience"*, which reiterated the importance of its retail payments strategy and of digital innovation in finance as means to strengthen the Single Market of financial services and thereby reinforcing its open strategic autonomy in the macro-economic and financial fields, as well as with the Council *Conclusions on the EU's economic and financial strategic autonomy: one year after the Commission's Communication* (see section 1.2).
- The initiative is coherent with fundamental rights, in particular data protection rules in the General Data Protection Regulation (GDPR).<sup>159</sup> It is not anticipated that the overall amount of personal data processing taking place will increase as a result of this initiative, except to the extent that cash payments may be replaced by electronic

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<sup>154</sup> Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market.

<sup>155</sup> IPs would enable users, especially low income households, to keep better track of expenses and maintain a positive account balance. Low-income households who are more likely to manage their finances from pay check to pay check would have greater visibility of their budget and are less likely to incur penalties for late or missed payments. The benefits for financial inclusion arising from the uptake of IPs were considered as likely by 51% of all types of respondents to the open public consultation who expressed their view on this matter.

<sup>156</sup> Due to IP-based payment solutions being predominantly based on contactless technology, which could contribute to limiting the transmission of infectious diseases and provide benefits for public health in face of future pandemics.

<sup>157</sup> Taking into account the approach described in section 5.2.2 to resolve potential conflicts.

<sup>158</sup> [https://ec.europa.eu/info/publications/towards-stronger-international-role-euro-commission-contribution-european-council-13-14-december-2018\\_en](https://ec.europa.eu/info/publications/towards-stronger-international-role-euro-commission-contribution-european-council-13-14-december-2018_en).

<sup>159</sup> Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data.

transactions (which is a long-term trend in any case). PSPs already apply GDPR in the context of all electronic payments; this initiative will not create any new challenges for them in this regard. Regarding implementation of the preferred option for reducing the number of fraudulent and erroneous euro IPs and increasing user confidence in IPs (a service allowing a payer to have an immediate check of the ‘match’ between the IBAN and the name of a payee, before authorising the transaction), PSPs will have to implement such a service in full compliance with the applicable data protection requirements. Experience with the existing services of this kind provided in the Netherlands and the UK demonstrates that the service can indeed be designed and implemented in full compliance with GDPR.

The initiative would contribute to the EU achieving the G20 objectives (section 1.2)<sup>160</sup>.

## 7.4 Summary of impacts of selected options

<i>Objectives</i> <i>Policy option</i>	EFFECTIVENES S	EFFICIENCY (cost- effectiveness)	COHERENCE	OVERALL SCORE
<i>Increase the supply of euro IPs in the EU</i>				
<b>Option 1.2</b> <i>Legal obligation to offer sending and receiving of IPs in euro for PSPs offering the service of regular euro credit transfers to users (with targeted exclusions)</i>	++	+	+	++
<i>Address dissuasive fees for euro IPs compared to alternative payment means</i>				
<b>Option 2.1</b> <i>Obligation for PSPs to offer IPs in euro at fees not higher than fees for regular credit transfers</i>	++	≈	++	++
<i>Simplify and enhance the efficiency of the sanctions screening process for euro IPs</i>				
<b>Option 3.2</b> <i>‘SEPA domestic’ approach (replace transaction-based screening with regular updates by PSPs of own customers lists against applicable EU sanctions lists)</i>	++	+++	+	++
<i>Increase payer confidence in euro IPs with regard to risk of fraud and errors</i>				
<b>Option 4.1</b> <i>Obligation for PSPs to provide an “IBAN verification” service, before confirming an IP</i>	++	≈	+	+

## 7.5 “One In One Out”

By means of the “one in one out principle” the Commission has committed to offset administrative costs of new initiatives by correspondingly reducing administrative costs of other initiatives<sup>161</sup>. However, the present initiative does not involve administrative

<sup>160</sup> [Targets for Addressing the Four Challenges of Cross-Border Payments: Final Report \(fsb.org\)](#).

<sup>161</sup> Administrative costs are defined as “costs borne by businesses, citizens, civil society organisations and public authorities as a result of administrative activities performed to comply with

costs for businesses, citizens or public authorities, as the initiative will not lead to any increased oversight or supervision of PSPs, or to specific reporting obligations. There are also no regulatory fees and charges arising from the initiative.

Although adjustment costs do not need to be offset according to the “one in one out principle”, it is worth recalling that the recurrent cost savings for PSPs from the new approach to sanctions screening are likely to more than offset adjustment costs generated by the other components of this initiative, giving negative adjustment costs (i.e. savings) for the initiative overall (see Annexes 3 and 4 for more details). Any fees charged by PSPs, either for all credit transfers or for IBAN verification services, are outside the scope of “one in one out”. It is therefore considered that this initiative is not relevant for the "One In One Out" principle.

## **7.6 Climate and sustainability**

No negative implications of the initiative for climate have been identified. To the extent that euro IPs will contribute to the replacement of paper-based means of payment such as cheques or plastic cards and chips with fully digital ones (e.g. mobile apps), or reduce the use of paper-based invoices and receipts for companies and users that adopt IP-based solutions and services, some environmental benefits can be expected.

The initiative will contribute to target 8.2 of the UN Sustainability Development Goals: “To achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors”.

## **7.7 REFIT (simplification and improved efficiency)**

The present initiative is not a REFIT initiative. Although it is effected via an amendment to the existing SEPA Regulation, which lays down requirements for credit transfers and direct debits in euro, it is not based on an evaluation of that Regulation and it does not amend that Regulation beyond what is necessary to incorporate new specific provisions regarding IPs, which are a sub-category of credit transfers and which did not exist in 2012, when the SEPA Regulation was adopted. All current provisions in the SEPA Regulation regarding credit transfers continue to apply to IPs.

## **8 HOW WILL IMPACTS BE MONITORED AND EVALUATED?**

The general objective of increasing the uptake of euro IPs relatively to euro regular credit transfers can be monitored on an ongoing basis based on data from the EPC, the owner of the SCT and SCT Inst. Schemes. Monitoring the uptake of euro IPs in various use cases (incl. at PoI) and of volumes of euro IPs compared to cash or cards will require synthesising data from a number of different sources, with the assistance of the ECB and the EBA.

Regarding the specific objectives, the following comments on monitoring and evaluation can be made:

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administrative obligations included in legal rules”. « Adjustment costs » such as implementation costs, are not covered by this commitment, and in any case the adjustment costs of the present initiative are overall negative due to the savings generated by the new approach to sanctions screening. See Annex 3.

- The EPC maintains a public register of PSPs participating in the SCT and SCT Inst. Schemes.
- Regarding pricing, breaches by banks of the requirement of pricing for euro IPs not exceeding the pricing of regular credit transfers will be sanctioned by national competent authorities. Complaints by citizens and monitoring by consumer organisations such as BEUC will also be a useful source of information.
- The proposed solution for sanctions screening can be expected to entirely eliminate rejection of euro IPs due to sanctions screening false hits, if it is effectively implemented. PSPs can be expected to implement it given the significantly reduced costs for them. The legislation will not allow Member States to require transaction-based sanctions controls for IPs in euro.
- For fraudulently and erroneously misdirected payments, the body or bodies which organise the future IBAN-name check service can be expected to collect data from participating PSPs on the effects of the system, although there is no legal requirement to do so. In addition, fraud data relating to IPs will be published by the ECB, the first year to be covered being 2022. There is no specific quantitative target for reductions.

Objectives	Indicator	Source of information
<i>General objective</i>		
Increase the uptake of euro IPs in the EU	% of IPs in all EU credit transfers (by volume).	EPC
<i>Operational objectives</i>		
Increase the number of PSPs offering euro IPs in the EU	Full compliance with the obligation for PSPs in scope	EPC, national competent authorities and citizens' complaints
Eliminate higher fees for euro IPs than fees for euro regular credit transfers	Full compliance with the obligation for all PSPs offering IPs	National competent authorities / citizens' complaints / BEUC
Reduce the rate of incorrect rejections of euro IPs due to sanctions screening	% of cross-border EU euro IPs incorrectly rejected because of sanctions concerns	No monitoring needed other than implementation of the new screening approach
Reduce the rate of fraudulently or erroneously misdirected euro IPs	% of IPs subject to a dispute procedure for error or fraud Evolution of volume and amount of IP fraud	Organiser of the future IBAN-name check service  ECB

## **ANNEX 1: PROCEDURAL INFORMATION**

### **LEAD DG, DECIDE PLANNING/CWP REFERENCES**

This Impact Assessment Report was prepared by Directorate B "Horizontal Policies" of the Directorate General "Directorate-General for Financial Stability, Financial Services and Capital Markets Union" (DG FISMA).

The Decide Planning reference is:

- PLAN/2021/10249: Initiative on IPs in the EU, proposal for a Regulation.

The initiative on IPs was included in the 2022 Commission Work Programme published on 19 October 2021.

### **ORGANISATION AND TIMING**

Four Inter-Service Steering Group (ISSG) meetings were held, chaired by SG, on 9 March 2021, 17 November 2021, 7 April 2022, and 6 September 2022 (the first three meetings to discuss draft impact assessment and the fourth meeting to discuss draft legislative text). In addition, a written consultation was held from 29 June to 4 July 2022 on the draft Impact Assessment as revised for resubmission to the Regulatory Scrutiny Board (RSB). The ISSG consisted of representatives from various Directorates-General of the Commission: COMP, JUST, CNECT, ECFIN, GROW, REFORM, TAXUD, TRADE, and SJ. The contributions of the members of the Steering Group have been taken into account in the content and shape of this impact assessment.

### **CONSULTATION OF THE REGULATORY SCRUTINY BOARD**

The Impact Assessment report was examined by the RSB on 24 May 2022. The RSB issued a negative opinion on 25 May 2022. The report was resubmitted to the RSB on 8 July 2022; the RSB then issued a positive opinion (with comments) on 7 September 2022.

The principal areas in which this Impact Assessment was reinforced following the RSB negative opinion of 25 May 2022 are the following:

- More explanation about the market failures underlying the initiative in light of network externalities, particularly on the supply side (including in Section 2.3 and its subsections, as well as new Annex 10).
- Addition of further detail on the nature of the 'payment float' and impacts of its reduction on payment service users, providers and financial stability (including new Annex 8).
- Clarification on why and to what extent the initiative will apply in non-Euro area Member States (e.g. in Section 5 when describing options, in Section 6 when assessing impacts of options, in Annex 3 when assessing impacts on various stakeholders).
- Clarification that market concentration is not among the main problem drivers, and that greater choice of means of payment at PoI (rather than greater competition among PSPs) is an indirect expected consequence of the initiative.

- Greater breakdown of the impact of the initiative on different categories of stakeholders, including SMEs, particularly in Annex 3.
- Consideration of additional options not included in the Impact Assessment as first submitted, namely Options 1.1 and 4.3.
- Inclusion of more information about IP systems in non-Euro area Member States and worldwide (see Annex 6).
- Inclusion of a more granular description of the EU PSP sector (see Annex 7).
- Further explanations regarding the risk of fraud and refund rights with respect to IPs, regular credit transfers and other means of payment (see Annex 5).
- More background information on the functioning of cross-border credit transfers in the EU (see Annex 9).
- Clarification of the specific and operational objectives of the initiative.
- Structural and presentational improvements (e.g. presentation of baseline options, explanation of scoring of options; treatment of drivers 3 and 4 and related options in the main report not in annexes).

Following the positive opinion of 7 September 2022, in light of the comments attached to the opinion, further clarifications were introduced in the report in three areas:

- The distribution of the impacts of the initiative, particularly with regard to PSPs, arising from the obligation to send euro IPs which has a reducing effect on the payment float (section 6.1), and consumers (section 6.2).
- The impact of this initiative in non-Euro area Member States, and its interaction with the CBPR (sections 5.2.2 and 6.1).
- The application of the “one in one out principle” as regards adjustment costs (section 7.5).

## EVIDENCE, SOURCES AND QUALITY

A number of inputs and sources of data were used in the preparation of this impact assessment, including the following:

- Evidence supplied in the various consultations described in Annex 2.
- A study carried out by a contractor, Fidelis Consulting, "IPs, Current and foreseeable benefits" delivered in 2021<sup>162</sup>.
- Information provided by the EPC on the membership and use of the SCT and SCT Inst. Schemes.
- Information provided by the ECB on the use of its TIPS real time settlement system, ECB Statistical Data Warehouse, National Payment Committees.
- ORBIS database.
- EBA Register of payment and electronic money institutions under PSD2<sup>163</sup>.
- Discussion Paper on the EBA's preliminary observations on selected payment fraud data under PSD2, as reported by the industry<sup>164</sup>.

<sup>162</sup> Available at this link: <https://op.europa.eu/en/publication-detail/-/publication/735d5b9d-0c5e-11ec-adb1-01aa75ed71a1/language-en/format-PDF/source-228471178>.

<sup>163</sup> <https://www.eba.europa.eu/risk-analysis-and-data/register-payment-electronic-money-institutions-under-PSD2>

<sup>164</sup> [Discussion Paper on payment fraud data received under PSD2 \(europa.eu\)](#)



- Evidence provided by PSPs, especially on costs, in the course of targeted consultation and bilateral contacts.

With regard to quality of evidence, the following observations can be made:

- Information on costs incurred by PSPs, either in offering IPs or in offering a service of IBAN checking, was provided by various PSPs themselves, and could not be independently verified. Many PSPs declined to provide this information, and the ones that did provide it, did so under the condition of strict confidentiality. The data points used in the analysis reflects the significant efforts by the Commission services to obtain cost information, as many PSPs and industry associations were not constructive in sharing the necessary data. It was observed that the reported costs varied considerably, and were generally in proportion to the size of the PSP, in terms of geographical reach and number of accounts serviced.
- Information on the numbers of EU PSPs offering IPs is available via the EPC, as participation in the SEPA SCT Inst. Scheme confers this capability.
- The Fidelis Consulting study, completed in 2021, was based on the analysis of market studies and interviews with relevant stakeholders, including PSPs, providers of technical services, consumer organisation, merchants and corporates, to obtain their insights into the actual and expected benefits of a widespread adoption of IPs.
- Information on usage and market shares of various payment instruments and means (used for example in Annex 7 and in section 2) was compiled by Commission services from sources such as the ECB, National Payment Committees, studies, and information provided by market participants, in most cases in confidence. Commission services collated the data and made calculations on this basis.

## ANNEX 2: STAKEHOLDER CONSULTATION

### 1. CONSULTATION PLAN

In order to ensure that the Commission's proposal adequately takes into account the views of all interested stakeholders, the consultation strategy supporting this initiative was built on the following components:

1. An open public consultation, open from 31 March to 23 June 2021<sup>165</sup>;
2. A public consultation to prepare the Commission's Retail Payments Strategy (RPS), open from 3 April to 26 June 2020<sup>166</sup>;
3. A public consultation on the inception impact assessment for the present initiative, open from 10 March to 7 April 2021<sup>167</sup>;
4. A targeted written consultation of the payments industry, open from 24 March till 12 June 2021;
5. Consultation of stakeholders in two Commission groups the Financial Services User Group (FSUG), and the Payment Systems Market Expert Group (PSMEG);
6. Ad hoc contacts with various stakeholders, either on their initiative or that of the Commission;
7. A FISMA webinar on IPs organised on 10 June 2021;
8. Consultation of Member States' experts in the Commission Expert Group on Banking Payments and Insurance and ad hoc workshops on sanctions screening.

The results of each component are presented below.

### 2. OPEN PUBLIC CONSULTATION ON IPs

#### Introduction

On 31 March 2021, the European Commission launched a dedicated public consultation on IPs. In line with the Better Regulation Principles, the Commission invited stakeholders to express their views on remaining obstacles as well as possible enabling measures to ensure a wide availability and use of IPs in the EU.

The consultation was open until 23 June 2021 and yielded 170 replies, 165 of them submitted online via Have Your Say portal and 5<sup>168</sup> by email to Commission services. The questionnaire focused on four areas:

1. Payment services user perspective
  - a. Consumer preferences
  - b. Retailer preferences
  - c. Corporate user preferences

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<sup>165</sup> [https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12931-Instant-Payments/public-consultation\\_en](https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12931-Instant-Payments/public-consultation_en) .

<sup>166</sup> [https://ec.europa.eu/info/consultations/finance-2020-retail-payments-strategy\\_en](https://ec.europa.eu/info/consultations/finance-2020-retail-payments-strategy_en) .

<sup>167</sup> [https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12931-Instant-payments\\_en](https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12931-Instant-payments_en) .

<sup>168</sup> From ETPPA, EMA, EBA Clearing, Danish Ministry for Business, Industry and Financial Affairs, and Bundesarbeitskammer Österreich.

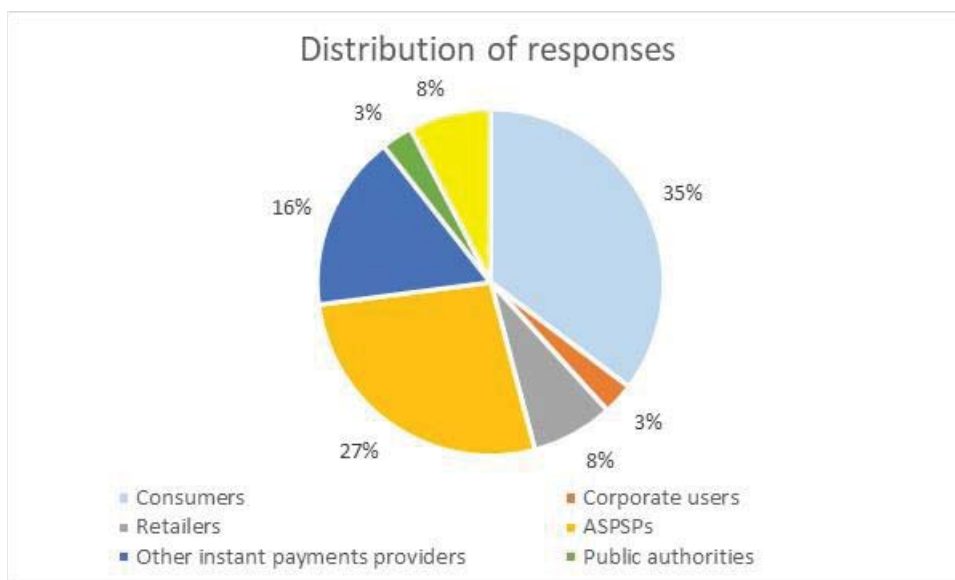
2. Payment Service Provider (PSP) perspective
3. Technical standardization, and
4. Horizontal aspects

The feedback to this consultation has been used to inform the assessment by the Commission services of impediments to the widespread availability and use of IPs in the EU and of possible enablers ensuring a full uptake of pan-European IPs.

This annex provides a factual overview of all responses received. Therefore, any opinions expressed reflect the views of the respondents and do not reflect the position of the European Commission or its services.

### Who responded?

Out of the 170 responses received, almost half (46%) came from IP users (35% EU citizens / consumers, 8% merchants and 3% corporate users), 43% from IPs providers (including PSPs, technical service and infrastructure providers) and 11% from other type of respondents (public authorities, NGOs, academics and other).



Respondents came from 24 Member States and 9 countries outside the EU. Inside the EU, the highest number of responses came from Belgium and Germany. 17 responses came from outside the EU.

SMEs were encouraged to participate in the public consultation via the Enterprise Europe Network (EEN). 18 respondents identified themselves as SMEs, of which 7 were business associations and consumer organisations, and 11 individual companies (9 provider side representatives, 1 merchant and 1 other).

### Key messages

Overall, the consultation responses revealed that a majority within all categories of stakeholders, on both user and provider side, considered that IPs can respond to their payment or business needs and bring about broader benefits in terms of e.g. financial inclusion or fiscal benefits.

On the user side, consumers and merchants considered that IPs can offer them payment means which are convenient, fast, and easy to use. In terms of benefits of IPs for corporates, respondents put emphasis on the improved ability to more efficiently manage cash flows and meet payment obligations on time.

All categories of payment service users were nearly unanimous that IPs must allow making and receiving payments anywhere in the EU and not only within one Member State.

A vast majority of consumers and merchants considered cost of IPs, compared to other alternatives such as regular credit transfers or cards, to be an important factor. Furthermore, majority of consumers indicated that they would not be willing to pay for IPs more than they pay for regular credit transfers.

The responses on the provider side also reflect the recognition of important benefits of IPs in terms of allowing them to remain competitive on the market.

Respondents considered that certain potential risks related to IPs, in terms of e.g. fraud or liquidity, may require special consideration, but were not seen as a hindrance to rolling out pan-European IPs. There was an overall support for ensuring EU-level standardization of relevant technologies.

## **Summary of Responses**

### ***Payment services user perspective***

#### *Consumer preferences*

EU consumers were invited to indicate the main features, which they consider important when selecting a payment method. Overall, 60 responses were received from individual EU citizens and consumer organizations.

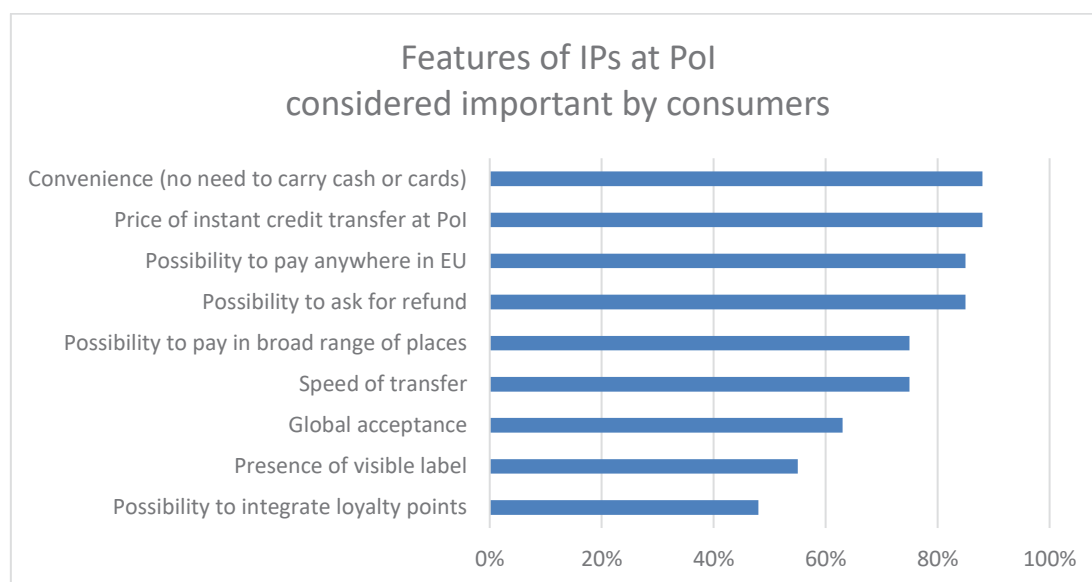
The vast majority of consumers considered that it was important that the funds are credited instantly to the account of the beneficiary (88%) and that the service was available 24 hours a day, any day of the year (90%). 88% considered that cost of IPs (compared with a regular credit transfer) would be an important factor: 67% would not be willing to pay any premium fee for the instant version of credit transfers, and those who would be open to paying more, could agree to an increase of up to 50% compared to a fee for regular credit transfers.

The existence of safeguards regarding the risk of fraud or error was considered important by 90% of respondents. The majority (83%) expected their banks to offer a service allowing, prior to the initiation of the transfer, for the immediate verification of the 'match' between the IBAN of the beneficiary and the name on the beneficiary account, automatically and free of charge.

Regarding the important features of IPs when used at Point of Interaction (PoI), 88% of respondents pointed to convenience (e.g., no need to carry cash or a card if used via a mobile payment app/digital wallet); 88% to price of using an IP at PoI; 85% to possibility to pay not only in one's own country but also anywhere in the EU, as well as to the possibility to ask for a refund; 75% to the possibility to pay in a broad range of places and situations (shops, restaurants, gas stations, public administrations, etc.) and 75% to the speed with which the funds are credited to the beneficiary.

Global acceptance was important for 63% of consumer respondents and a common recognizable label by 55%. Just under half (48%) considered the possibility to integrate loyalty points in the payment app/wallet to be an important feature (with one consumer specifically raising concerns about the impact of integrating loyalty points on their privacy).

Other benefits of IPs identified by respondents included *inter alia* the possibility to better identify transactions compared to card transactions which appear on the account with a delay.



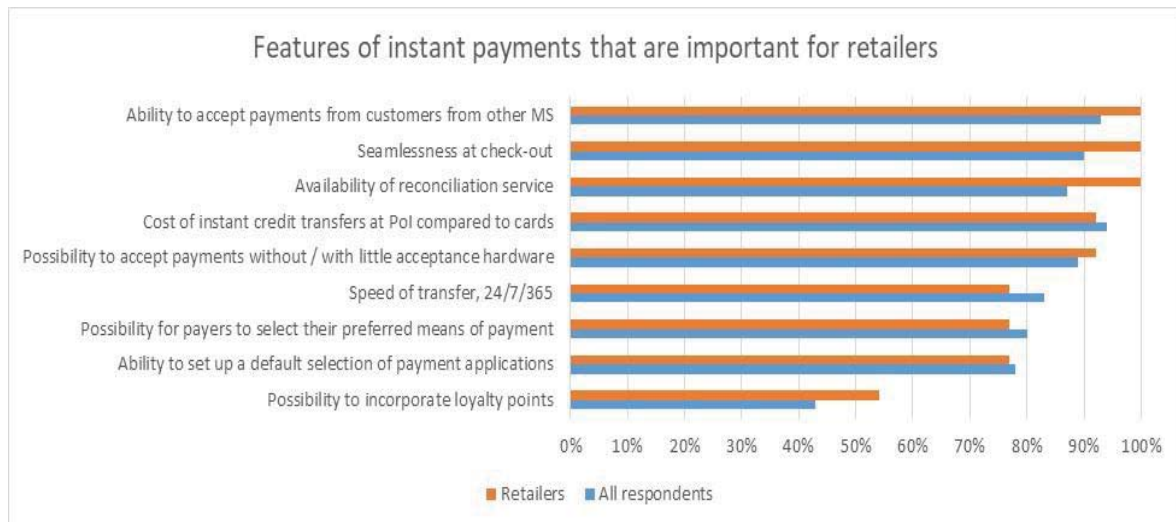
### *Retailer preferences*

Stakeholders were invited to rate the importance of various factors for merchants when deciding on whether to offer customers the possibility to pay with IPs at PoI.

Merchants and retailer associations (13 responses) were unanimous on the importance of ensuring the ability to accept payments from customers from other Member States; ensuring the seamlessness at check-out; and availability of reconciliation service<sup>169</sup>. A similar extent of support for the above factors was given by all types of stakeholders who expressed their view on the subject.

The vast majority of EU merchants (92%) and nearly the same proportion of all stakeholders considered it important to ensure a lower cost of IPs at PoI compared to cards; and the possibility to accept payments without (or with very little) acceptance hardware. Moreover, 77% of merchants (and even higher proportion of all stakeholders) considered speed; the availability of an omni-channel point of sale (POS) solution offering payers means of selecting their preferred means of payment; and the ability to set up a default selection of payment applications, to be important features. Availability of services allowing the incorporation of loyalty points was considered important by 54% of merchants but only 43% of all stakeholders.

<sup>169</sup> The process of matching a payment recorded in the bank account of the merchant with the sales of the merchant.



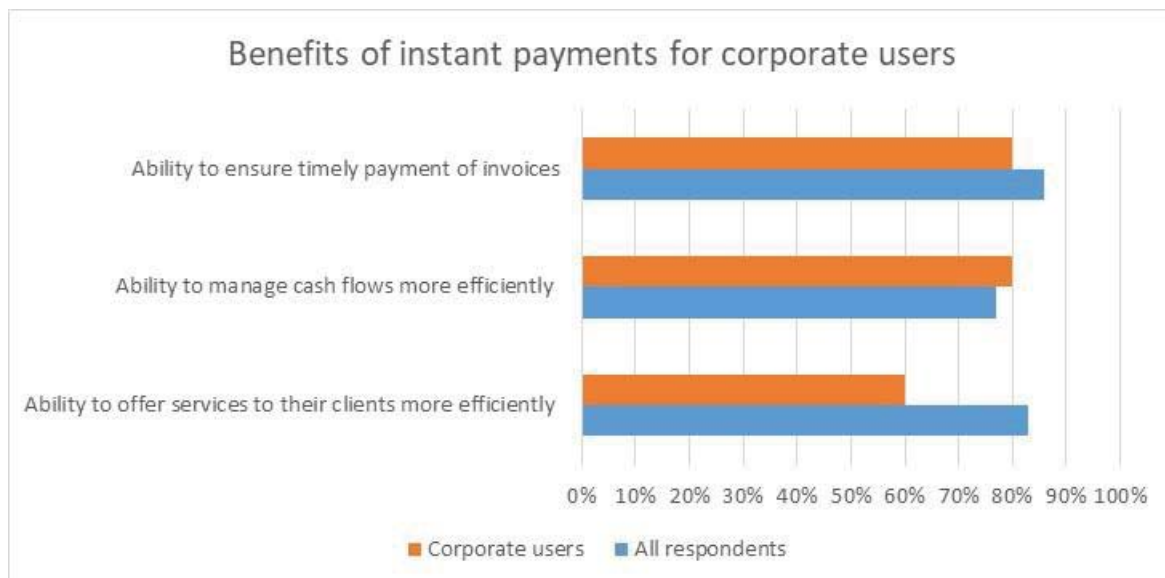
Other important features considered by merchants when deciding on whether to start accepting a pan-European payment solution or new scheme based on IP included: ensuring appropriate fraud prevention, availability of instant confirmation of authorisation and payments, availability of dispute resolution mechanism, instant refunds, capability to cater for recurring payments for subscription-based services, and affordable fees for consumers.

#### *Corporate user preferences*

Overall, respondents argued that IPs could be the first step towards real-time corporate treasury, ensuring more accurate and secure management of available balances and reducing the need for liquidity buffers, with surplus cash available to be reinvested by corporates in their operations.

80% of corporate users considered that being able to manage cash flows more efficiently was an important benefit of IPs (down to 77% if responses from all categories of stakeholders are considered). 80% of corporate users (or 86% of all stakeholders who pronounced their opinion on this point), considered that an important benefit would be derived from the ability to ensure timely payment of invoices or other payment obligations. The majority of corporate users (60%) and vast majority of all respondents (83%) considered that IPs would help corporates offer services to their clients more efficiently (e.g. by providing instant refunds).





80% of corporate users (and 75% of all respondents) considered that immediate availability of funds would enable corporate users to fulfil their obligations (e.g. instant shipment of the order) sooner, compared to the situation when the funds are not immediately available.

Other types of benefits for corporate users identified by respondents included *inter alia* being able to be more agile in terms of managing payment needs at a very short notice, also outside the banking business hours, e.g., booking cargo or manufacturing capacity, or purchasing on-demand computing services (such as cloud services); facilitating logistics (e.g. no need to hold goods until payment is cleared); reduced need for borrowing; reduced risk of not being paid by customers and business partners; and being able to make payments for higher amounts compared with cards.

Respondents considered that IPs could be useful for paying employees, suppliers and tax authorities, paying late fees and invoices, payments of dividends, reimbursements to customers, recovering debt. IPs were seen as a substitute for existing ‘payment against delivery’ solutions, improving the process of digitalization of EU companies.

In terms of the readiness of corporate users to accept IPs, respondents pointed to the need to adjust the internal operations of corporate users, such as related to treasury management system, warehouse operations, customer support system, etc. However, corporate users, including SMEs, did not express major concerns about the cost of such adaptations. In terms of the readiness of corporate users to pay a premium fee for an IP compared to regular credit transfer, the view of all respondents was split 50% in favour and 50% against.

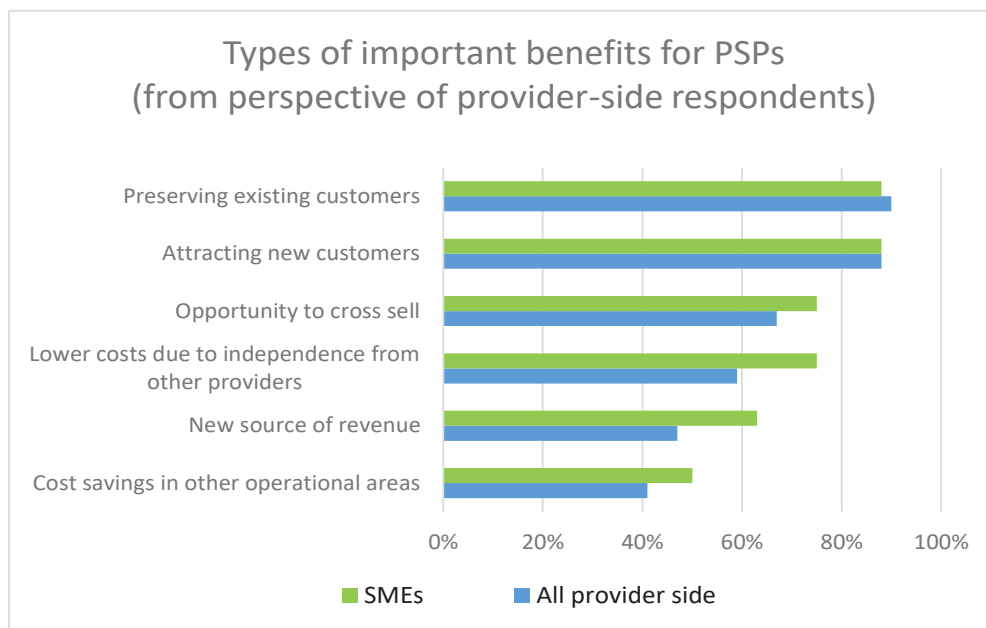
Only a handful of respondents pronounced their views on whether the current EUR 100k cap on euro IPs constitutes an obstacle to their use by corporates and whether it should be modified or removed. Respondents considered that both types of processing: per individual transaction and in bulk (for multiple payment transactions bundled together) should be available for corporate users to choose depending on their specific needs. In terms of the type of Value Added Services (VAS) which were considered useful for corporates, Request to Pay and/or Confirmation of Payee (CoP), as well as e-invoicing were mentioned most often.

### *Perspective of payment service providers*

As regards benefits for Payment Service Providers (PSPs) which would derive from offering IPs, 'provider-side' respondents to the consultation (representing 43% of all respondents and comprising PSPs, technical service providers and payment systems) thought that the important benefits would lie in the ability of PSPs to preserve their existing customers (90% of provider-side respondents who expressed an opinion on this point) and to attract new customers (88%).

In terms of other types of benefits, 67% of provider-side respondents thought that IPs would present important benefits in terms of ability to (cross) sell other services, 59% thought that important benefits would arise from the opportunity for PSPs to 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, 47% saw important benefits linked to IPs being a new source of revenue, while 41% considered that with IPs PSPs could generate cost savings in other operational areas (e.g., cash management and distribution, ATM maintenance, security costs and other).

As regards provider-side respondents that identified themselves as SMEs and expressed their view on benefits deriving from IPs, 88% thought that there would be important benefits with respect to the ability of PSPs to preserve their existing customers, 88% - to attract new customers, 75% - to 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, 75% - to (cross) sell other services, 63% - to have a new source of revenue and 50% - to generate cost savings in other operational areas.



Out of 82 respondents representing various types of stakeholders who expressed their opinion on whether IPs could aggravate bank runs and thus contribute to bank failures, 71% did not see such risk. They argued that important safeguards already exist, such as the pre-funded nature of IP settlement accounts with Clearing and Settlement

Mechanisms (CSMs) or various daily or transaction limits that PSPs tend to apply (which may not pertain specifically to IPs). On the other hand, 29% of respondents, primarily PSPs, thought that such risk is possible. In terms of mechanisms and tools that this group of respondents considered could be effective to contain intense liquidity outflows prompted by IPs, 67% thought that a daily limit for the amount which could be transferred via IPs could be useful; 54% supported a discretionary power allowing competent authorities to suspend IP obligations of the PSP concerned for a certain period of time and 50% thought that other mechanisms or solutions, available to either PSPs or competent authorities, could be useful, such as application of limits for the number of consecutive IPs (in addition to a daily limit for the amount that can be transferred), introduction of a notification mechanism by central banks in case of a bank run or discretion for PSPs, under certain exceptional circumstances, to redirect IPs to 'regular' credit transfers.

### ***Technical standardization***

The consultation sought stakeholder views on whether a single European QR (Quick Response) code standard for IPs should be available to relevant market participants. 70% of all respondents who expressed their view on this subject thought that a single European QR code should be available while 30% disagreed.

The majority (63%) of those who were in favour of a single standard thought that it should be developed by a European standardisation organisation, and 30% said that this should be done by market participants.

Out of those who disagreed with the need for a single standard, 38% thought that the same objective could be achieved through the interoperability of existing QR codes, while 24% said that other technologies (e.g. Near Field Communication) are safer and/or more convenient.

### ***Broader societal aspects***

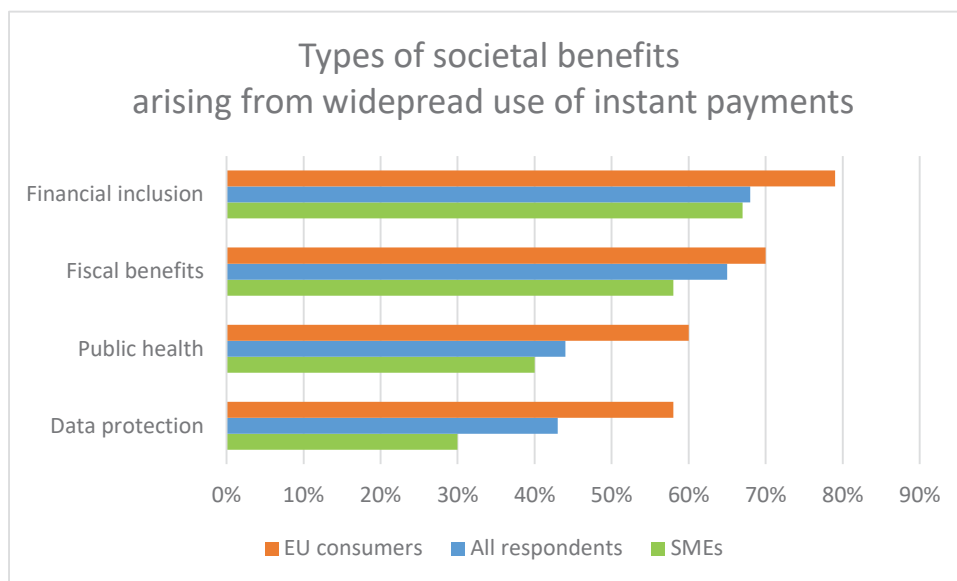
The consultation also included questions on broader risks and benefits to the society, arising from the widespread use of IPs in the future.

In terms of risks that could negatively affect operations of a particular financial sector or pose broader societal costs, 70% of respondents who expressed their opinion on this subject did not see such risks, while 30% believed that such risks exist, referring to risks related to online scams and fraud, additional pressure on PSPs to ensure real-time fraud prevention, costs arising from parallel maintenance of different payment methods and their integration into applications.

In terms of broader societal benefits, among all types of respondents who expressed their opinion on various types of benefits, 68% believed that benefits accrue in the area of financial inclusion, 65% thought there would be fiscal benefits, 44% saw benefits related to public health and 43% believed that there would be benefits linked to better data protection. 21% of all respondents to the consultation indicated that benefits would also accrue in a number of other areas, e.g. societal costs of cash handling and management.

It should be observed that EU citizens / consumers had a more favourable outlook on the likelihood of societal benefits than the overall sample of respondents who expressed their opinion on this subject, as evidenced by a consistently greater proportion of EU citizens / consumers agreeing to the possibility of various societal benefit types.

As regards respondents that identified themselves as SMEs, they had a marginally less favourable outlook on the likelihood on the various types of societal benefits that the overall sample of respondents who expressed their opinion on the subject.



### 3. OTHER CONSULTATIONS OF STAKEHOLDERS

#### 3.1 Public consultation in preparation of the Commission's Retail Payments Strategy (RPS)

The public consultation preparing the RPS was open from 3 April to 26 June 2020, and received a total of 189 responses from market players and consumers (17 responses from citizens). The following is an extract from the published summary of that consultation.<sup>170</sup>

A large share of respondents supported EU legislation making payment service providers' adherence to the SCT Inst. Scheme mandatory. Respondents who supported mandatory adherence to SCT Inst. Scheme suggested very diverse end dates for such a requirement, ranging from between the end of 2021 until the end of 2025. Approximately half the respondents did not indicate any date.

In addition, a large proportion supported additional standardisation measures, pointing to a variety of areas, including inter alia, QR-codes, clearing transmission protocols, data protocols, APIs, supporting payment initiation and account information services, authentication, e-identification, cash registry systems and e-receipts, etc.

A number of respondents also supported the development of new payment schemes, such as SEPA instant direct debit, one leg-in transactions, European electronic identity based on LEI, etc. A smaller number of respondents supported EU legislation adding IPs to the

<sup>170</sup> [https://ec.europa.eu/info/consultations/finance-2020-retail-payments-strategy\\_en](https://ec.europa.eu/info/consultations/finance-2020-retail-payments-strategy_en) .

list of services included in the payment account with basic features under the Payment Accounts Directive or EU legislation mandating replacement of SCT with SCT Inst.

Amongst additional measures which might contribute to the successful rollout of pan-European payment solutions based on IPs, respondents also referred to a wide range of possible measures, including: identifying schemes to which adherence should be mandatory; ensuring open access to Near Field Communication (NFC) on mobile devices; common branding of interoperable digital wallets; mandating that IPs are charged as a standard service; and effective regulation of global payment scheme operators to ensure a level playing field.

A large proportion of respondents considered that IPs may pose some degree of additional or different risks compared to regular credit transfers. These risks, according to respondents, may derive from inter alia the speed and immediacy of IPs making them irrevocable, the lack of clear expectations and standards from regulators concerning compliance with payment screening obligations, etc. These factors could, according to the respondents, lead to fraud (e.g. authorised push payment scams), money laundering and terrorist financing (e.g. mule accounts), cybercrime, liquidity risk for financial institutions, operational and legal risks from processing errors, higher cost for merchants and insufficient consumer protection. Many respondents emphasized, however, that solutions already exist to mitigate those risks or that they could be developed. Respondents acknowledged that such solutions could be costly, but also considered that modern technologies (such as artificial intelligence) could be useful.

Respondents pointed to the need for: dedicated, real-time fraud monitoring and prevention tools; more focus on pre-transaction initiation controls (such as confirmation of payee); a maximum threshold for instant transactions; a market-wide digital identity program; consumer communications campaigns to raise awareness about differences with other instruments such as cards. A number of respondents considered that an ad-hoc stopgap mechanism would be useful for emergency situations, as IPs can quickly stress the liquidity situation of a payment service provider and current mechanisms are insufficient if a bank run takes place outside normal office hours.

When invited to identify the most advantageous solutions for EU merchants, other than cash, respondents were almost equally spread over three possibilities: card-based solutions, SCT Inst. solutions, and other (such as Central Bank Digital Currencies, SEPA Direct Debit (SDD) or various solutions based on a combination of smart cards, IPs, request to pay schemes, etc.). When asked what the most important factor(s) for merchants were when deciding whether or not to start accepting a new payment method, the majority of respondents pointed to the proportion of users, the seamlessness of consumer experience, level of merchant fees, fraud prevention, reconciliation and refund services. Other factors included, for example, the implementation cost, time and effort, maintenance cost, speed of the payment solution, international acceptance, security, and system stability.

In response to the question regarding whether they accept foreign SDD payments, the majority of respondents indicated that they accepted both domestic and foreign SDD,

whereas a very small number of respondents did not accept SDD at all, or only accepted domestic SDD.

### *3.2 Consultation on inception impact assessment*

The consultation on an inception impact assessment on the Commission's Have Your Say portal<sup>171</sup> ran from 10 March 2021 to 07 April 2021, and drew 41 responses from a diverse range of stakeholders, showing broad support for a regulatory action to put in place relevant enablers.

### *3.3 Targeted written consultation of market participants*

The targeted consultation with PSPs and providers of technical services supporting the provision of IPs focused on matters of more technical or confidential nature; 51 replies were received from a wide spectrum of payments market participants.

### *3.4 Consultation of stakeholder groups*

The Financial Services User Group (FSUG) discussed IPs on 23 April 2021<sup>172</sup>. FSUG members stressed that for IPs, an account should at a minimum be reachable, IPs should not require a smartphone and are digitally excluded, and that fees should be affordable. The importance of consumer confidence in IPs with regard to consumer protection against fraud was underlined.

The Payment Systems Market Expert Group (PSMEG) discussed IPs on 16 December 2021. As regards the nature of PSPs that should be mandated to offer sending and receiving of IPs, the general view shared by most stakeholders was that the obligation should cover all PSPs offering retail payment services to consumers and corporates. In terms of sequencing of the possible obligations to receive and send euro IPs, there was an overall support for a one-step approach from consumers, retailers, corporates and non-banking PSPs. As regards the level of transaction fees for euro IPs, the views of the stakeholders diverged. Among the PSP community, account servicing (AS) PSPs were not in favour of a regulatory intervention on fees, while non-AS PSPs supported either equal transaction fees for euro IPs and regular credit transfers, or a free provision of euro IPs. Consumers and retailers also expressed preference for no 'per transaction' fees for euro IPs. As regards protecting consumers by way of requiring their PSP to provide a service allowing, prior to the initiation of a transfer, for the immediate verification of the match between the IBAN of the beneficiary and the name on the beneficiary account held with the beneficiary's PSP, consumer representatives and academics considered that such service would be very important and beneficial for consumers.

### *3.5 Bilateral contacts with stakeholders*

A wide range of bilateral contacts were held with various stakeholders during the preparation of this initiative, essentially by videoconference, including BEUC - the European consumer organisation), providers (banks, banking associations, European

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<sup>171</sup> [https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12931-Instant-payments\\_en](https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12931-Instant-payments_en).

<sup>172</sup> [https://ec.europa.eu/info/publications/fsug-meetings-2021\\_en](https://ec.europa.eu/info/publications/fsug-meetings-2021_en).



Payments Council, FinTechs, third party providers (TPPs)), Euro Retail Payments Board (ERPB), ECB, National Payments Committees, national central banks and supervisors, etc.

### *3.6 FISMA webinar on 10 June 2021*

The DG FISMA webinar on "Exploring the potential of IPs for EU consumers and businesses", held on 10 June 2021<sup>173</sup>, brought together consumers, payment service providers, merchants and corporates, including SMEs. The event garnered significant stakeholder interest, with 767 pre-registrations and 2,884 connections to the live web-streaming, from both within the EU and globally, and demonstrated a very strong support from the user community for the greater availability of IPs.

## **4. CONSULTATION OF MEMBER STATES**

National authorities were consulted in the framework of the Commission Expert Group on Banking Payments and Insurance (CEGBPI), which discussed IPs in a number of its meetings and provided input on the positions of Member States on specific elements. The CEGBPI discussed IPs on 22 October 2020, 25 March and 30 November 2021<sup>174</sup>.

With regard specifically to sanctions screening, two workshops were held, on 23 June and 10 December 2021, with Member State experts in the area of application of “sanctions screening”, focusing on the frictions to the processing of cross-border IPs which are caused by national and international sanctions screening obligations and on the possible solutions to overcome those frictions.

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<sup>173</sup> [https://ec.europa.eu/info/events/finance-210610-instant-payments\\_en](https://ec.europa.eu/info/events/finance-210610-instant-payments_en) .

<sup>174</sup> Minutes available at this link: <https://ec.europa.eu/transparency/expert-groups-register/screen/expert-groups/consult?do=groupDetail.groupDetail&groupID=2885&Lang=EN> .

## **ANNEX 3: WHO IS AFFECTED AND HOW?**

### **1. PRACTICAL IMPLICATIONS OF THE INITIATIVE**

#### **1.1 Introduction**

The costs of the initiative are mainly one-off implementation (adjustment) costs, and fall largely on PSPs. They consist of a) the costs of offering euro IPs for those PSPs covered by the initiative which are not already participants in the SCT Inst. Scheme; b) the costs of implementing an EU-level IBAN verification system in order to reduce fraudulently and erroneously misdirected euro IPs and thus promote payer confidence in IPs. Ongoing incremental per euro IP transaction costs for PSPs, where reported, are mainly connected to having active processing capacity 24/7/365. However at high volumes overall per euro IP transaction costs are comparable to transaction costs for euro regular credit transfers.

The benefits, on the other hand, are ongoing benefits and accrue to a wide range of stakeholders, including consumers, businesses, merchants and public administrations, fintechs as well as PSPs themselves. The proposed solution for sanctions screening will lead to significant savings for all PSPs on an ongoing basis with anticipated higher volumes of IP.

#### **1.2 Payment Service Providers (PSPs)**

In terms of distribution of adjustment costs and benefits across the industry, they are expected to vary depending on the following factors:

- At a more general level, by Member State.
  - o Regarding the euro area:
    - (i) For PSPs operating in national markets (such as the three Baltic States, Finland, the Netherlands) that are already well advanced in application of at least several of the measures proposed under this initiative (e.g., high level of adherence to the SCT Inst. Scheme, equalised fees for euro IPs and regular euro credit transfers, IBAN verification service in place), the adjustment costs are expected to be limited and, therefore, greater net benefits from the initiative could be expected;
    - (ii) PSPs operating in the Member States that have been lagging behind in promoting euro IPs are expected to incur greater initial or recurrent adjustment costs, but over time are also expected to see them offset by benefits generated by the initiative.
  - o Regarding non-Euro area Member States, the volume of euro IPs is expected to be lower (in view of the share of credit transfers in a national currency for domestic transactions), reducing potential revenue and thus negatively impacting the overall cost-and-benefit balance for PSPs operating therein. Nevertheless, a number of market factors and deliberate proportionality measures are expected to provide a counter-balancing mitigatory effect. For instance:
    - (i) Only 13% of PSPs operating in non-Euro area would be subject to the measures included in this initiative, as the remaining ones do not carry out regular credit transfers in euro;
    - (ii) Two Member States (Bulgaria and Croatia) will have adopted the euro by the time this initiative will apply;

- (iii) Domestic IP systems in national currencies exist in all non-Euro Member States. For PSPs already offering IPs in national currencies, investments in these systems can be leveraged for providing euro IPs, thus reducing the initial adjustment costs, in view of the fact that the domestic approaches are often heavily based on the rules of the SCT Inst. Scheme (please see Section 6.1), and in some of those Member States the same settlement system would be used for IPs in euro and national currencies (e.g., Sweden and Denmark intend to use TIPS). Similar synergetic effects are expected with respect to ongoing costs, such as providing 24/7/365 customer support for both types of IPs;
  - (iv) A considerably extended implementation deadline of the measures included in the package is expected to serve a dual purpose. First, it will allow the local PSPs to optimise their implementation costs, by giving them a possibility to spread their internal resources over a longer period of time<sup>175</sup>. Second, it is expected that greater euro IP network effects would be set in motion by such later deadline, as a higher volume of euro IPs would be attained due to earlier deadlines applicable to the Euro area PSPs.
- Existing provision of euro IPs: PSPs that already offer euro IPs (2 300) will incur initial adjustment costs only for the measures of this initiative other than offering euro IPs, unlike PSPs that do not currently offer IPs (800-900), which would potentially incur some costs for implementation of all four components of this initiative. The remaining group of some 300 PSPs that are excluded from the scope of obligation to offer euro IPs under the preferred option 1.2 would be directly impacted by the initiative only if they were to decide to offer euro IPs on a voluntary basis.
  - Size of a PSP: The collected evidence on the initial adjustment costs with respect to offering IPs and IBAN verification service shows that those costs are proportionate and, in absolute terms, vary with the size of a PSP (i.e., they are lower for smaller PSPs and higher for larger PSPs). This will greatly facilitate implementation of the proposals for PSPs which are SMEs (many of which are fintechs and enthusiastic about IPs). Importantly, benefits of the initiative, such as operational savings in the area of sanctions screening, are also estimated to vary with the size of a PSP (i.e., higher for larger PSPs). Therefore, in this regard both the costs and benefits appear to be distributed in a comparable fashion.

Even though the cost-benefit analysis may be negative for certain individual PSPs in the short term, the overall benefits of the initiative will lead to a more efficiently functioning payment system, with direct and indirect benefits to all stakeholders, including PSPs themselves. The indirect benefits include the stimulus to innovation in payments markets, especially as regards PoI payment solutions based on IPs, with the potential to reduce costs for retail purchases and to increase choice of PoI payment means.

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<sup>175</sup> Some PSPs that adhere to the SCT Inst Scheme indicated that a share of incurred implementation costs was driven by the need to rely on external resources in order to ensure timely implementation.

### 1.3 SMEs

Regarding SMEs specifically, they are concerned by this initiative in two capacities, as users of euro IPs (such as merchants or business users) and as providers of euro IPs or related services, such as PSPs or payment fintechs (smaller PSPs, start-ups etc.).

As users of IPs, the costs for SMEs are not expected to be material. For SMEs as corporate users, receiving IPs is not expected to require any significant adaptation and sending IPs in most cases only requires familiarisation with the new customer interface of their PSP.

Benefits for SMEs as corporate users and merchants, in terms of cash-flow management, can be significant given the quicker reception of payments. In relation to this, SMEs would realise a significant share of the estimated efficiency gains of EUR 1.34 to 1.84 billion per year related to the reduction in the payment float (see section 7.1).<sup>176</sup> SMEs which are merchants have the potential to benefit from any future increased choice of the means of payment at PoI, which could drive down fees charged to merchants by PSPs (see section 2.2.2. above). As observed by SME United, *“Improving the functioning and the usability of Instant Payment solutions can make this new payment instrument an attractive payment solution for small merchants in online and offline business”*<sup>177</sup>.

As for SMEs which are PSPs or payment fintechs, they are normally not encumbered by complex legacy IT systems as large well-established PSPs may be (legacy IT systems or presence of different payment platforms for different brands are a significant generator of implementation costs<sup>178</sup>); their implementation costs therefore are expected to be at the lower end of the identified ranges (see section 6.1). This has been confirmed by data received from certain smaller PSPs, including SMEs, as part of the consultation and fact finding. It has been observed that innovative start-ups PSPs and payment fintechs normally want to offer euro IPs, or services ancillary to euro IPs, as a key element of their business strategy and they tend to recognise benefits of IPs for providers to a greater extent compared to the overall payments provider community (see Annex 2). In addition, they also supported the view that IPs could generate certain types of benefits at a broader society level (see Annex 2).

SMEs are therefore expected to be among the net gainers from this initiative, whether as users or as PSPs/fintechs.

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<sup>176</sup> Given that over 99% of non-financial sector companies in the EU are small companies [[EU small and medium-sized enterprises: an overview - Products Eurostat News - Eurostat \(europa.eu\)](#)]

<sup>177</sup> [Instant payment can become an attractive option for SME merchants | SMEUnited](#)

<sup>178</sup> Studies on implementation of instant / faster payments in other jurisdictions identified these factors as an important driver of implementation costs for PSPs, for instance [[ARCHIVED CONTENT \(nationalarchives.gov.uk\)](#)]

*Impact on SMEs by SME type (summary table)*

Type of SME	PSP	Merchant*	Corporate SMEs*
Costs	<ul style="list-style-type: none"> <li>- implementation costs near the bottom of the range between EUR 10 000 and EUR 1.3 mln (only if the PSP does not yet offer IPs)</li> <li>- ongoing transaction costs comparable to regular credit transfers, declining as volume of IPs increases</li> <li>- costs linked to implementation of IBAN verification system proportionately lower than the costs incurred by larger PSPs</li> <li>- forgone earnings on the payment float</li> </ul>	<ul style="list-style-type: none"> <li>- possible adaptations of PoI payment infrastructure needed for physical shops (depends on access of new solutions to existing payment terminals)</li> </ul>	<ul style="list-style-type: none"> <li>- very limited implementation costs to receive IPs (comparable to consumers)</li> </ul>
Benefits	<ul style="list-style-type: none"> <li>- cost savings from new approach to sanctions screening (reducing or outweighing other implementation costs)</li> <li>- cost savings from displacement of cheques (in selected markets)</li> <li>- benefits from successful prevention of IP fraud and errors (no need to investigate)</li> <li>- new market opportunities (on payments market and PoI market)</li> </ul>	<ul style="list-style-type: none"> <li>- lower costs than those related to accepting other payment means (cash, cheques and cards), in particular for cross-border transactions where the range of available payment means is very narrow</li> <li>- improved cash flow management: reduction in late payments, immediate availability of transferred funds due to reduction in payment float reduces the financing cost of working capital</li> <li>- potential for faster despatch of goods to consumers (where payments are currently made with regular credit transfers) and offering instant refunds</li> </ul>	<ul style="list-style-type: none"> <li>- improved cash flow and liquidity management: reduction in late payments, immediate availability of transferred funds due to reduction in payment float reduces the financing cost of working capital</li> </ul>

\* Types of costs and benefits for SMEs which are merchants and other commercial businesses are not different from costs and benefits for larger merchants and businesses. The relative extent of some of the benefits (e.g., cost savings related to accepting other payments means such as cards), can be greater for SMEs due to their inferior negotiating position with acquirers. Certain types of benefits for merchants are contingent on future development of PoI payment solutions based on IPs and are therefore to be considered as indirect benefits of this initiative.

## 1.4 Consumers

Consumers will experience almost no costs in order to be able to receive and send euro IPs. Receiving a euro IP will not require any additional effort compared with receiving a euro regular credit transfer, while sending an IP will require, at most, familiarisation with options available through the interface of the PSP of the consumer, such as a banking app.

Due to the pricing provisions in the present initiative, customers of PSPs currently charging premium prices for euro IPs are expected to experience a fall in transaction fees for euro IPs. For customers of PSPs which currently do not charge premium prices for euro IPs, there should be no change. Customers of PSPs which do not offer euro IPs at all are unlikely to experience a high level of transaction fees for euro IPs, since PSPs would need to significantly increase the fees for regular euro credit transfers in order to charge the same level of fees for euro IPs.

On the other hand, consumers will experience the benefits of immediate reception of due funds 24/7/365 in all types of daily life situations, including emergencies, (as payees) and ability to settle bills or make late payments more rapidly (as payers). Available evidence confirms that users do rely on the possibility to send and receive IPs around the clock (see Section 2.2.1).

As for purchasers of goods and services, consumers will potentially benefit indirectly from any innovations permitting the use of IPs at PoI, such as quicker dispatch of goods and services, and possible pass-on of savings accruing to merchants in the form of lower retail prices (depending on competitive forces between merchants).



## 2. SUMMARY OF COSTS AND BENEFITS

The tables below summarise the costs and benefits described above, based on the package of preferred options.

<i>I. Overview of Benefits (total for all provisions) – Preferred Option</i>		
<i>Description</i>	<i>Amount</i>	<i>Comments</i>
<i>Direct benefits</i>		
Reduction of funds in transit and unavailable for economic use ('payment float')	Economic benefits from reduction of payment float in the range of EUR 1.34 to EUR 1.84 billion per year, depending on the uptake of IPs.	Funds currently held in PSPs will be available sooner to consumers and businesses for consumption or investment. See Section 7 and Annex 8.
Greater convenience for users from ability to instantly send/receive funds	Not quantifiable	Benefits for all categories of payment services users, consumers and businesses.
Improved cash-flow management for businesses, especially merchants and corporates	Not precisely quantifiable, but 63% of businesses in the EU maintain a cash contingency to cover the time it takes to receive payments, indicating savings potential.	Benefit for businesses
Accelerated and improved collection of fines and taxes if paid using IPs	In the range of EUR 0.25-1.59 billion per year	Benefit for public administrations and society overall. See section 7.
Cost savings for PSPs from new approach to sanctions	Potentially in the range of EUR 5.5 -7.6 billion per year, of IPs depending on the uptake	Benefits for all PSPs.
Cost savings linked to handling of cheques	Potentially up to EUR 2.3 billion per year	PSPs and merchants (in Member States where cheques are used). See sections 2.2.1 and 7.
Financial inclusion, public health, environment	Not quantifiable	Benefits for society overall. Section 7 and Annex 2 (on public consultation).
Reduction in losses related to fraudulently misdirected IPs	Potentially up to EUR 209 million per year, based on experience in the Netherlands and assuming 100% uptake of IPs.	Benefits for payment service users (consumer and businesses); benefit for PSPs from reduced need to investigate fraud and errors in IPs.
<i>Indirect benefits</i>		
Stimulus for innovation in PoI payment solutions	Not quantifiable	Market opportunity for PSPs and fintechs with potential benefits for retail merchants, and savings for consumers
Potential to reduce concentration in PoI payments	Difficult to quantify, but the evidence of high merchant fees for card payments in section 2.2.2 indicates potential for cost savings from greater choice of payment means at PoI.	Could lead to reduced fees to merchants for receiving PoI payments; competition forces should lead to such savings being passed on to consumers.

<b>II. Overview of costs – Preferred option</b>							
		Citizens/Consumers		Businesses <sup>179</sup>		Administrations	
		One-off	Recurrent	One-off	Recurrent	One-off	Recurrent
<b>Wider availability of IPs</b>	Direct adjustment costs	None	None	Per PSP in the range between EUR 10 000 and EUR 1.3 million. On the industry level between EUR 36 ml and € 477 ml.	For PSPs, average transaction cost comparable to the cost of a regular credit transfer, declining as volume of IPs increases	None	None
	Indirect costs	None	None	None	Loss of earnings for PSPs due to reduction in the payment float in the range of EUR 1.34 to 1.84 bn per year, depending on the uptake of IPs	None	None
	Enforcement costs	None	None	None	None	None	Enforcement of compliance
<b>Elimination of dissuasive fees for IPs</b>	Direct adjustment costs	None	None	None	Loss of revenue if IPs currently priced higher than regular credit transfers (if no compensating account charges are introduced)	None	None
	Indirect costs	None	Transaction fees, only if PSPs introduce or increase fees currently charged for regular credit transfers or increase account fees	None	None	None	Transaction fees, only if PSPs introduce or increase fees currently charged for regular credit transfers or increase account fees

<sup>179</sup> This category includes both business users of IPs and the PSPs.

	Enforcement costs	None	None	None	None	None	Enforcement of compliance
<b>Improvement of sanction screening for IPs</b>	Direct adjustment costs	None	None	Small one-off costs for PSPs for switching to new system	None	None	None
	Indirect costs	None	None	None	None	None	None
	Enforcement costs	None	None	None	None	None	Enforcement of compliance
<b>Reduction of fraudulently and erroneously misdirected IPs</b>	Direct adjustment costs	None	Possible fees for the service	Per PSP in the range of EUR 10 000 and EUR 2 million, depending on the size of the PSP and the extent to which costs are recovered through fees.	Per PSP in the range of several thousand EUR and EUR 350 000, depending on the size of the PSP and the extent to which costs are recovered through fees.  Possible fees for businesses as users of the service.	None	Possible fees as users of the service
	Indirect costs	None	Risk of unduly aborted payments	None	None	None	None
	Enforcement costs	None	None	None	None	None	Enforcement of compliance
<b>Costs related to the 'one in, one out' approach</b>							
<b>Total</b>	Direct adjustment costs	None	None	Implementation costs in the ranges given above	Net cost savings overall (see above)		
	Indirect adjustment costs	None	Possible increases in general fee levels (see above)	None	None		
	Administrative costs (for offsetting)	None	None	None	None		

## ANNEX 4: SANCTIONS SCREENING

This annex discusses in more detail the problem driver 3, *High rate of rejected IPs due to 'false positive' hits in sanctions screening*, identified in section 2.3.3 of the impact assessment.

### Operational frictions arising in sanctions screening of IPs

In the process of executing IPs, PSPs have to comply with sanctions screening requirements a) not to make funds or economic resources available, directly or indirectly, to persons or entities that are 'designated' (i.e., included on EU sanctions lists); and b) freeze the assets owned, held or controlled by designated persons and entities. Sanction designations applicable in the EU, including the UN sanction designations that are transposed into EU law, are covered by EU sanctions Regulations.<sup>180</sup> In addition to such EU-wide sanctions, some Member States also apply national sanctions lists.

EU legislation does not prescribe in what way, in terms of the procedure or tools to be used, the PSPs are to ensure compliance with the aforementioned sanctions requirements. Therefore, PSPs apply various methods, based on their own individual approach or on the guidance provided by the relevant national authorities.

In relation to domestic IPs, in some Member States PSPs comply with their sanctions obligations by updating their customer lists regularly and frequently (usually daily). This ensures that the latest information on all the applicable sanctions lists is reflected accurately in their systems and, as a result, transactions from payment accounts belonging to designated persons or entities are not initiated, and funds made available to them are frozen immediately.

A different, transaction-based, approach is employed in some other Member States where the names of a payer and a payee of each transaction are screened twice, by both the payer's PSP and the payee's PSP, reflecting duplication of screening activities.

Importantly, for cross-border euro IPs, in absence of a harmonised sanctions screening approach all EU PSPs apply the above transaction-based screening of individual payments.

When the transaction-based screening approach is applied, the initial automated screening system flags transactions that are suspected of involving sanctioned persons. Given the incomplete quality of the data on the lists, similarly sounding names, misspellings and other deviations (different word order, use of initials instead of full first names, concatenation, etc.), the flagging will happen not only when the automated screening tools detect a 100% match between the name of a payer or a payee, and the name of a designated person or an entity on a sanctions list, but also where they detect a lower level of match, such as 85% or 95%. The side effect of this approach is that the screening tools flag a lot of transactions that do not contain the sanctioned entity itself but only strings of data similar to the sanctioned entity. Such 'flagged' transactions require further, manual investigation. However, unlike regular credit transfers, IPs cannot be put on hold to allow for a manual investigation, without losing their instant nature. As

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<sup>180</sup> [www.sanctionsmap.eu](http://www.sanctionsmap.eu) .

a result, all ‘flagged’ IPs are immediately rejected, even if such ‘flags’ turn out to have been false.

In this regard, PSPs estimate that in as much as 99.8% of transactions flagged by the initial automated screening system are ‘false positives’, i.e. in theory they should not be rejected as they turn out to not involve designated persons or entities.

Based on the feedback from PSPs to the targeted consultation, the problem is particularly acute with respect to cross-border IPs, where all EU PSPs currently rely on transaction-based screening. The reported share of cross-border IPs that were rejected in the process of transaction-based screening over the period of last 12 months were in the range of 0.4% to 9.4%<sup>181</sup>. This was many times higher<sup>182</sup> than the observed rejection rate for all regular credit transfers which tended to hover around 0%, given that there is sufficient time to manually verify the initial flagging without the need to reject the transfer.<sup>183</sup> With the estimated annual volume of euro cross-border IPs in 2020 of approximately 15 million<sup>184</sup>, each percentage point of rejected transactions is equivalent to 150,000 cross-border IPs that did not reach the intended beneficiary. Assuming the volume of cross-border euro IPs will go up as a result of the current initiative, the number of rejected cross-border transactions would increase in proportion with it, if no measures are taken to reduce the rejection rate.

It should also be observed that this problem is not limited to cross-border euro IPs, as a number of rejected IP transactions could occur with respect to purely domestic IPs in those Member States<sup>185</sup> where PSPs currently use the above described transaction-based approach to screen them.

#### Estimation of operational savings under the preferred policy option

In terms of compliance costs, the preferred policy option (option 3.2) is expected to deliver significant operational savings for PSPs, which would not occur under the baseline or would occur at a substantially lower scale under option 3.1. Those savings, depending on the level of IP uptake, could be estimated to fall in the range of EUR 5.5 to 7.6 billion per year.

In this regard, the obligation to update customer lists against all the applicable sanctions lists on a frequent and regular (daily) basis is not expected to generate material compliance costs, because for most EU PSPs this is already a part of their current practice.<sup>186</sup> At the same time, the elimination of the need to carry out manual follow-up

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<sup>181</sup> Based on 11 quantitative submissions from PSPs; the average rejection rate was equal to 3.5%.

<sup>182</sup> The ratio between the two rejection rates (i.e., for cross-border IPs and for regular credit transfers) at the level of the same PSP ranged from single digits to hundreds and, in some cases, thousands.

<sup>183</sup> It should be noted that the low share of rejected purely domestic euro regular credit transfers in some Member States is driven by the practice of complying with sanctions obligations by way of regular and frequent updates of PSPs’ customer lists to accurately reflect the latest information on all the applicable sanctions lists.

<sup>184</sup> ECB, National Payment Committees; calculations by the European Commission.

<sup>185</sup> Based on the feedback from the market participants, PSPs in almost half of Member States apply this approach for domestic IPs.

<sup>186</sup> For instance, in the workshop of 10 December 2021 with Member State experts in the area of sanctions screening, experts from 11 out of 19 participating Member States confirmed that all or majority of PSPs in their national markets already perform regular updates of customer lists.

investigations on ‘flagged’ transactions would deliver material operational savings. In this regard, the study<sup>187</sup> by LexisNexis Risk Solutions on financial firms’ compliance cost with AML and sanctions screening obligations in five European markets found that 74% of that compliance cost is driven by labour resources and, within the latter, 62% of the overall number of FTEs were involved in sanctions screening activities. On the basis of the findings of that study and, depending on the level of IP uptake, it could be estimated that the operational savings for EU PSPs would fall in the range of EUR 5.5 to 7.6 billion per year, as per the following table. If the eventual uptake of IPs is higher operational savings would be accordingly greater.

*Operational savings arising from the application of ‘SEPA domestic’ approach for the sanctions screening of euro IPs*<sup>188</sup>

Total assets, billion euro	Estimated number of PSPs	Average assets, 000s	AML costs, as % of assets	Share of labour costs	FTEs involved in sanctions screening	FTEs, reflecting shared AML / sanctions work	% of regular credit transfers screened per transaction	Operational savings, 000s (50% uptake of IPs)	Operational savings, 000s (70% uptake of IPs)
>50	84	241 425 890	0.08%	74%	62%	49.6%	53%	1 578 020	2 209 227
>10 and <50	223	21 300 161	0.27%	74%	62%	49.6%	53%	1 247 415	1 746 380
>1 and <10	1 024	3 085 771	0.51%	74%	62%	49.6%	53%	1 567 448	2 194 427
<1 or n/a	1 711	360 701	1.77%	74%	62%	49.6%	53%	1 062 502	1 487 503
	3 042							5 455 384	7 637 538

<sup>187</sup> [The True Cost of AML Compliance – European Survey | LexisNexis Risk Solutions](#) .

<sup>188</sup> Assumptions and calculation: (i) increase in the uptake of euro IPs (50% and 70% uptake considered) eliminates ‘false positive’ rejections that would otherwise occur in the process of transaction-based sanctions screening of regular credit transfers that are substituted by IPs. Based on the feedback from national authorities about current practices applied in various Member States, it is assumed that 53% of regular credit transfers are screened per transaction, (ii) estimates of AML/sanctions costs as % of total assets (for each of the size buckets), share of labour costs (74%) in total AML/sanctions costs, share of FTEs working on sanctions screening (62%) in all FTEs working in AML/sanctions area, share of FTEs working on both sanctions and AML (40%) taken from LexisNexis Risk Solutions study [[The True Cost of AML Compliance – European Survey | LexisNexis Risk Solutions](#)], (iii) ‘FTEs reflecting shared AML/sanctions work’ assumes that FTEs that work on both subjects dedicate 50% of their time to sanctions screening, and is derived as follows  $62\% \times 60\% \times 100\% + 62\% \times 40\% \times 50\% = 49.6\%$ ; (iii) allocation of PSPs across the size buckets based on analysis of information in ORBIS database. PSPs for which the information on asset size was not found (258) in ORBIS database were assumed to be small and added to the smallest category (representing the most conservative assumption), (iv) PSPs included in the analysis include PSPs that provide IPs (2282) and PSPs that are expected to fall in the scope of the obligation to offer IPs under this initiative (760).



## ANNEX 5: PAYER CONCERNS ABOUT SECURITY OF IPS (WITH REGARD TO FRAUD AND ERRORS)

This annex discusses in more detail the problem driver 4, *Payer concerns about security of IPs (with regard to errors and fraud)*, identified in section 2.3.4 of the impact assessment.

When a payer requests its PSP to send a credit transfer (regular or IP), for example through online banking, the payer is required to indicate the name of the payee as well as the account number of the payee (for payments in euro, the account number is the standardised International Bank Account Number, IBAN). According to the rules of PSD2<sup>189</sup>, the PSP executing any type of a credit transfers, be it regular or IP, has no legal obligation to verify the name of the payee provided by the payer and the PSP has no legal liability towards the payer if it turns out later that the account to which the funds were sent did not belong to the payee named by the payer. This situation may arise due to errors made by the payer or due to the payer falling victim of certain types of fraud.

According to the feedback from consumer organisations<sup>190</sup>, over the recent years many consumers have been tricked into transferring money using credit transfers (regular or IPs) to fraudulent accounts. Such types of fraud, involving payer manipulation, is not prevented by measures laid out in PSD2, such as the Strong Customer Authentication (SCA)<sup>191</sup>, which aims to ensure that it is the payer him- or herself who is requesting the transaction. Where the payer is manipulated into authorising a credit transfer (regular or IP) such types of fraud are referred to as Authorised Push Payment fraud, or APP fraud. There is an important distinction to be made in this regard between payment fraud, when the criminal (through theft or cyberattack) is able to perform the payment transaction instead of the genuine payer (which should be prevented by the application of SCA), and pre-payment fraud, where the criminal manipulates the genuine payer and that the payer then makes a payment compliant with payments legislation.

There is a wide variety of APP scams affecting credit transfers (regular and IPs), including so called invoice fraud where the scammer tampers with an invoice, physically or digitally, and changes the payee's account number, as well as various types of impersonation scams. Impersonation scams include, for example, a CEO fraud (where an e-mail that appears to come from the payer's employer requests a payment); phone spoofing (where, by imitating the phone number of a bank, the scammer impersonates bank staff and urges the payer to transfer their funds to a different account due to fictitious security concerns); a marketplace fraud or website spoofing (where the scammer is pretending to be a seller of products or services and/or creates a website which uses the names, logos, graphics or even URL of genuine website).

All credit transfers, regular and IPs, have been found by the EBA<sup>192</sup> to be the payment method for which the manipulation of the payer by the fraudster is the most prevalent, compared with the other payment instruments (such as cards, for which the more

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<sup>189</sup> Art 88 of PSD2, which applies to all types of payment transactions executed between two accounts, including IPs.

<sup>190</sup> [https://www.beuc.eu/publications/beuc-x-2021-027\\_consumers\\_and\\_instant\\_payments.pdf](https://www.beuc.eu/publications/beuc-x-2021-027_consumers_and_instant_payments.pdf).

<sup>191</sup> Article 97 of PSD2.

<sup>192</sup> [Discussion Paper on payment fraud data received under PSD2 \(europa.eu\)](https://www.europa.eu/press-room/media/33644/discussion-paper-payment-fraud).

common type of fraud is making unauthorised payments, now substantially prevented by SCA). Based on the fraud data collected by the EBA for 18 EEA countries, the average fraud rate for all credit transfers (regular and IPs), in terms of value, in the second half of 2020 was 0.0011%, of which 43% was due to manipulation of the payer to initiate SCA- authorised transactions. On this basis the extent of APP fraud in 2020 for all SEPA euro credit transfers, including IPs, in the EU is estimated at approximately EUR 323 million.

The problem is more common with respect to cross-border (both inside and outside EEA) credit transfers, regular and IPs, whose overall fraud rate exceeds that of domestic credit transfers by more than 20 times. As a result, despite the fact that, according to the EBA analysis, cross-border credit transfers (regular and IP) represented only around 2% of all credit transfers, their share in the total volume of credit transfer-related fraud reached 31% in the second half of 2020 for the 18 EEA countries.

Country specific data show this trend as well. For example, in Belgium, the Ministry of Economy in 2020 received 784 reports from consumers and businesses concerning invoice fraud, with the total losses amounting to EUR 5.2 million<sup>193</sup>. In the Netherlands, between January and October 2021, the impersonation scams (where the fraudster impersonates bank staff) increased in terms of value by nearly 50% compared to the whole of 2020<sup>194</sup> and reached nearly EUR 40 million. In the UK, in 2020 APP scams reached GBP 479 million. In the opinion of the UK's Payments Services Regulator, the actual extent of APP fraud is likely to be much higher if unreported losses were to be included.<sup>195</sup> The average value of a fraudulent credit transfer, regular and IPs (43% of which are due to payer manipulation) is substantially higher (at EUR 4 191) than for the other payment instruments such as cards (e.g. between EUR 45 and 73)<sup>196</sup>.

Apart from fraud, when the payer manually inputs the IBAN number to place a payment order for a regular credit transfer or IP, which in the EU can be up to 28 characters long, errors can occur. The check digit system embedded in the ISO standard on which the IBAN is based<sup>197</sup> allows to prevent the majority of typing errors that would make the IBAN number incoherent (e.g. substituting a single digit with a different one). However, check digits do not eliminate the risk entirely (e.g. an error made by the payer produces a valid and coherent IBAN, belonging to a different beneficiary). Moreover, other types of human errors can also be made by the payer (e.g. an employee using the wrong client's file). Moreover, erroneous transactions may result from the reassignment by a PSP of an IBAN of an unused account to a different customer<sup>198</sup>.

Partial data provided by PSPs in their responses to the targeted consultation<sup>199</sup> also seem to confirm the existence of the problem of funds sent to a wrong beneficiary through a regular credit transfer or an IP as a result of errors or APP fraud: for instance, one bank reported having received nearly 17 000 such complaints in the course of the preceding 12 months with respect to IPs and nearly 28 000 with respect to regular credit transfers;

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<sup>193</sup> Source: SPF Economie.

<sup>194</sup> Source: Dutch Payments Association.

<sup>195</sup> [CP21/6 Confirmation of Payee call for views \(psr.org.uk\)](https://psr.org.uk/cp21/6-confirmation-of-payee-call-for-views).

<sup>196</sup> EBA.

<sup>197</sup> Check digits are in position 3 and 4 of the IBAN.

<sup>198</sup> In the Netherlands in particular, IBAN numbers of closed accounts are reattributed to new accounts relatively quickly, thus leading to a high number of errors due to funds being sent to a reattributed IBAN.

<sup>199</sup> [https://ec.europa.eu/info/consultations/finance-2021-instant-payments-targeted\\_en](https://ec.europa.eu/info/consultations/finance-2021-instant-payments-targeted_en).

another - more than 8 700 with respect to IPs and 55 300 with respect to regular credit transfers. Some responses received from PSPs to the public consultation carried out in the context of the development of the Retail Payments Strategy also referred to a rising trend of social engineering fraud where PSPs' security systems are not violated but rather fraudsters manipulate the customer.

### **Refunds in case of fraud and errors in different payment methods**

**Payment fraud:** genuine payer did not authorise the transaction, instead transaction performed by a fraudster as a result of e.g. cyberattack, theft of the payment instrument, etc.

- PSP obligation to refund the transaction in case of all payment methods (regular credit transfers, IPs, direct debits, cards, etc.)<sup>200</sup>

**Pre-payment fraud/error:** genuine payer did authorise the transaction under false pretences or as a result of a mistake.

- Euro direct debits: by law, the payer has a right to a refund within 8 weeks from the day the payment was made<sup>201</sup>, which is justified by the fact that the payer authorises the transaction(s) in advance by giving the payee a mandate to pull funds from the payer's account at a later stage and the actual transaction is initiated at a later stage by the payee;
- Cards: card schemes offer a possibility of a chargeback on a contractual/commercial basis (for a fee paid by the card holder), in case for example there is a dispute with the seller or seller went out of business (conditions defined by card schemes, there are no refund rights defined by law);
- Pol solutions based on regular credit transfers or IPs: refund rights defined on a commercial basis by Pol solution providers similarly to cards; no refund rights defined by law;
- Regular credit transfers initiated via online banking (or in a branch): no refund rights under EU law. If the payer realises that fraud or error occurred, they can contact their PSP, which should make 'reasonable efforts' to recover the funds.<sup>202</sup> If the funds have been deducted from the payer's account (which is done instantly also in the case of regular credit transfers ordered on a business day) but the funds have not yet left the payer's PSP there may be chances for the payer of recovering funds (but the payer must realise the problem within few hours and still there is no guarantee and no obligation for the PSP to offer a refund); if the funds already left the payer's PSP, the payee who received the funds must agree to returning them. The PSP has no legal obligation to cancel the order or to refund the amount to the payer if its efforts to recover the funds are unsuccessful<sup>203</sup>.
- IPs initiated via online banking (or in a branch): the situation is the same as in case of regular credit transfers, with the only difference that the funds are deducted from the account of the payer and credited to the account of the payee almost simultaneously (within 10 seconds). If the payee received the funds in error, they must agree to return the funds as in the case of regular credit transfers. If the payee is a fraudster, this is unlikely. In the UK, the payers were able to recover their funds in approximately half of the Faster Payments<sup>204</sup> transactions, mainly where the payee was willing to confirm that they received the funds in error.

<sup>200</sup> Art 72-74 PSD2

<sup>201</sup> Art 76 and 77 PSD2. For all direct debits the refund right applies to cases where the authorisation did not specify the exact amount of the payment and the amount of the payment exceeded the amount the payer could reasonably have expected taking into account the previous spending pattern. For euro direct debits, the refund right during the same period of 8 weeks is unconditional.

<sup>202</sup> Art 88 PSD2

<sup>203</sup> This is without prejudice to possible contractual arrangements between PSUs and PSPs.

<sup>204</sup> Faster Payments in the UK are not IPs in the meaning of this initiative but can normally be executed within minutes.

BEUC argues that *“Payment by instant payment in face-to-face situations or at a distance will never flourish if consumer protection rules are not improved”*<sup>205</sup>. And there seems to be a growing recognition by the industry of the need to provide additional assistance to payers to protect themselves from pre-payment fraud and errors. Services have been developed and put in place in certain countries inside and outside the EU whereby payers, before confirming their payment order for a credit transfer (regular or IP), are provided with feedback about the level of the match between the name of the payee and the IBAN of the payee, as provided by the payer. In the Netherlands, a national market initiative was launched in 2017 by a fintech company sponsored by one of the Dutch banks and currently the service is available to the majority of payment account holders in the Netherlands<sup>206</sup>. The service consists of an algorithm that needs to be integrated into individual PSP’s online environment through an Application Programming Interface (API). The payer’s PSP sends a request containing the name and IBAN of the payee that the payer has entered through the online banking or mobile banking interface. The algorithm verifies these details against the data registered at the PSP of the payee and on that basis the payer’s PSP receives feedback on whether there is a match, close match or no match. In case of a non-match, the payer’s PSP can show a warning message to the payer, upon which the payer can decide whether to proceed or abort the payment<sup>207</sup>. In France, a similar solution verifying the reliability of IBAN of the payee (for credit transfers) or payer (for direct debit) has been introduced and is used by more than 100 PSPs<sup>208</sup>. In Estonia, PSPs check the match between the payee’s IBAN and name before the funds are credited to the payee’s account<sup>209</sup>.

In Belgium, a legislative proposal for mandatory provision of IBAN-name check free of charge for the consumer has been put forward by one of the political groups in the Parliament on 27 October 2021<sup>210</sup>. Preliminary assessments by public authorities of possible introduction of such a service are ongoing in other Member States, such as Austria and France. In Poland, a recommendation to provide such a service has been made by the Payment System Council<sup>211</sup>. Outside the EU, a similar service (called Confirmation of Payee, or CoP) has also been imposed on the biggest UK PSPs by the UK regulator.

In addition, in some Member States (Czechia, Finland, Italy, Romania, Latvia, Lithuania) certain individual PSPs offer a service of a more limited application, e.g. only for intra-bank transfers where both a payer and a payee hold accounts with that same PSP, or only for limited use cases (e.g. when the payer is a tax authority), which addresses the problem only to a very limited extent.

<sup>205</sup> [https://www.beuc.eu/publications/beuc-x-2021-027\\_consumers\\_and\\_instant\\_payments.pdf](https://www.beuc.eu/publications/beuc-x-2021-027_consumers_and_instant_payments.pdf).

<sup>206</sup> Service is provided by 5 PSPs holding the vast majority of payment accounts in the Netherlands: Rabobank, ING Bank, De Volksbank (SNS Bank, Regiobank, ASN Bank), ABN AMRO and Knab.

<sup>207</sup> More information on how the solution works is available on the website of the service provider, SurePay, here: <https://www.surepay.nl/en/services/iban-name-check-for-banks/>.

<sup>208</sup> [Presentation-DIAMOND-International-Web.pdf \(seppmail.eu\)](#)

<sup>209</sup> [Country profile: digital and instant payments are the norm in Estonia | European Payments Council](#)

<sup>210</sup> Proposition de Loi modifiant le Code de droit économique afin d’introduire un contrôle du nom du titulaire de l’IBAN en vue de lutter contre la fraude bancaire sur Internet, [La Chambre des représentants - Document parlementaire 55K2296](#).

<sup>211</sup> A coordination and advisory body of the national central bank, involving payment industry representatives.

Since 2021 an API-based pre-validation service is available from the Society for Worldwide Interbank Financial Telecommunications (SWIFT). It allows PSPs participating in the service verification, within maximum 3 seconds, to verify the match between the name of the payee and the IBAN of the payee provided by the payer, and it can be used for transactions within one country or globally<sup>212</sup>. It is currently used by more than 100 PSPs globally, including in the EU.

Finally, confirmation of payee is part of the Bank for International Settlements (BIS) Innovation Hub project dubbed 'Nexus', aimed at ensuring cross-border interoperability of IPs available in more than 60 global jurisdictions<sup>213</sup>. BIS considers that the confirmation of payee solution is particularly important in cross-border payments, where users may be entering account numbers or aliases in unfamiliar formats, or long international bank account numbers (IBAN) that can be difficult to check character-by-character.

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<sup>212</sup> <https://www.swift.com/our-solutions/global-financial-messaging/payments/payment-pre-validation>

<sup>213</sup> [Nexus: a blueprint for instant cross-border payments \(bis.org\)](https://bis.org/nexus)

## **ANNEX 6: BACKGROUND ON FUNCTIONING OF INSTANT PAYMENTS IN EU AND GLOBALLY**

### **(1) IPs in euro: SEPA IPs**

For an IP transaction to be carried out, appropriate end-to-end arrangements are necessary at two levels: (i) scheme rules; and (ii) settlement infrastructures.

In addition, in order to ensure that IPs can be used at PoI, an additional level (iii) is needed, i.e. payment solutions allowing end users (e.g. consumers or businesses) to initiate and accept IPs at PoI.

#### *Scheme level*

In order to ensure that any type of payment transaction can be successfully carried out between two accounts, PSPs holding those accounts for customers must agree to follow a set of common rules, practices and procedures (a so-called ‘payment scheme’). Payment schemes ensure that when PSPs exchange payment messages between each other and with the relevant Clearing and Settlement Mechanism (CSM), they use same terminology and formats, provide the same data sets and follow a commonly agreed sequence of steps. For euro IPs, i.e. SEPA instant credit transfers, EU PSPs apply the SEPA Instant Credit Transfer Scheme (SCT Inst. Scheme) agreed upon by EU PSPs in 2017. It sets out rules for carrying out IPs in euro, including the requirement to ensure that funds are available on the account of the beneficiary within maximum 10 seconds. There are no alternative schemes for carrying out IPs in euro, either at EU, or at domestic level. Thus, currently any PSP wishing to offer these types of euro transactions must adhere to this particular SEPA scheme<sup>214</sup>.

#### *Settlement infrastructure level*

A CSM, or a payment system, facilitates the fund movements between the PSPs resulting from the payment transactions ordered by the customers of PSPs (i.e. consumers and businesses holding payment accounts with the PSPs). PSPs must set aside part of their liquidity on a dedicated account opened with their CSM. When the PSPs exchange payment messages in accordance with the payment scheme rules with each other and with their CSMs, the latter move the funds between the dedicated accounts of PSPs to ensure the discharge of the obligations (settlement). In order to carry out an IP, PSPs must be connected to a CSM providing instant settlement, which – unlike the settlement for regular credit transfers – must be operational 24/7/365.

Today, CSMs handling IPs in euro are provided within the EU by the ECB (TARGET IP Settlement, or TIPS<sup>215</sup>), and various Automated Clearing Houses (ACH), e.g., EBA Clearing (RT1), Bankcart (SI), CENTROLINK (Lithuania), DIAS (EL), EquensWorldline

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<sup>214</sup> Other local payment schemes do exist for IPs in EU currencies other than euro (e.g. in PLN, HUF, SEK).

<sup>215</sup> As of May 2022 TIPS will also allow settlement of IPs in SEK



(the Netherlands), IberPay (Spain), NEXI (Italy), SIBS (Portugal), STET (France, Belgium).<sup>216</sup>

Until recently, these CSMs have not been made interoperable, meaning that if two PSPs adhering to the SEPA scheme for IPs in euro were connected to different CSMs providing instant settlement, IPs between these two PSPs were not in all cases possible. PSPs could not fully overcome this problem even by connecting to several CSMs. In July 2020<sup>217</sup>, the ECB announced measures which would oblige all PSPs that have adhered to the SCT Inst. Scheme to connect to TIPS (directly or via another PSP), and all ACHs offering IP services to migrate their technical accounts to TIPS, by 25 February 2022<sup>218</sup>. This ensures that a PSP adhering to the SEPA Inst. Scheme and using any CSM offering instant settlement in euro should be able to settle euro IPs with any other EU PSP also adhering to the SEPA scheme and using a CSM providing euro instant settlement. Hence, the barrier for cross-border euro IPs at the infrastructure level is being eliminated.

#### *End user level*

A final, third layer refers to solutions, which allow end users (e.g. consumers and businesses) to initiate and accept, e.g. via a mobile phone application, IPs not only through online banking or in a branch, but also at PoI (in physical shops, i.e. physical point of sale, or in e-commerce), or between individuals (person to person, or P2P), etc. Currently such solutions are available on the market only at domestic level, e.g. Bizum in Spain, Paylib in France, Bancomat Pay in Italy, MB Way in Portugal, Payconiq in Belgium, Bluecode in Austria and Germany, Kwitt in Germany<sup>219</sup>.

### **(2) IPs in non-euro currencies**

National systems of IPs in currencies other than euro, both within the EU and outside, exist in around 60 countries worldwide<sup>220</sup>.

#### **(a) IPs in non-euro EU currencies**

Uptake is sometimes reported as a percentage of credit transfers and sometimes as a percentage of all electronic payments (credit transfers + card payments) due to available data.

#### Czechia

An IP system, CERTIS, was launched in November 2018 with the uptake of IPs in CZK in 2020 estimated at 10%<sup>221</sup>. The usage has been held back by limited use cases beyond

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<sup>216</sup> There are also CSMs, which provide instant settlement of credit transfers in other EU currencies (e.g. in Poland, Hungary, Sweden, Denmark).

<sup>217</sup> <https://www.ecb.europa.eu/paym/intro/news/html/ecb.mipnews200724.en.html>.

<sup>218</sup> Further details are available here: [https://www.ecb.europa.eu/paym/target/tips/profuse/shared/pdf/faq\\_tips\\_and\\_pan-european\\_reachability\\_of\\_instant\\_payments.pdf](https://www.ecb.europa.eu/paym/target/tips/profuse/shared/pdf/faq_tips_and_pan-european_reachability_of_instant_payments.pdf).

<sup>219</sup> Outside the Euro area, solutions are limited to transactions at domestic level in local currencies, e.g. BLIK in Poland for IPs in PLN or Swish in Sweden for IPs in SEK.

<sup>220</sup> [Developments in retail fast payments and implications for RTGS systems \(bis.org\)](https://www.bis.org/developments/retail-fast-payments/implications-for-RTGS-systems)

<sup>221</sup> Sources: ECB, ACI Worldwide [[Prime-Time-for-Real-Time-Report-2022.pdf](#) ([aciworldwide.com](#))], Commission calculation

transfer of funds between accounts (there is no interbank app for IPs and PoI payments with IPs are still lacking) . Changes in those areas and a high level of cash usage can provide further potential for the uptake growth.

### Denmark

IPs in DKK were introduced in 2014. Since 2021, a rulebook<sup>222</sup> of the Nordic Payments Council is used (also for IPs in Sweden and Norway)<sup>223</sup>. The rulebook is based on a licence agreement signed with the EPC to use SCT Inst. Scheme as foundation<sup>224</sup>. This means that in practice, Danish PSPs already *de facto* comply with majority of SCT Inst. Scheme rules. A national settlement infrastructure exists but the Danish Central Bank has already applied to use ECB's TIPS from 2025 for IPs in DKK.

At the level of the end-user solution, MobilePay is a mobile payment application developed by Danske Bank and offered now by other Danish banks. More than 85% of the Danish population use MobilePay. IPs are replacing regular credit transfers and seem to be replacing cash to some extent. The uptake of IPs in DKK in 2020 is estimated at 37%<sup>225</sup>. ACI Worldwide estimates that with the projected growth in IP volume, net savings for consumers and businesses in 2026 would reach US\$ 151 million and would help to generate an additional US\$ 1 billion of economic output, equivalent to 0.23% of the country's forecast GDP.

### Hungary

The Hungarian IP system AFR (Azonnali Fizetési Rendszer) was launched in March 2020 on the basis of a decree<sup>226</sup> of the governor of the Hungarian National Bank (MNB) requiring all PSPs in Hungary to participate in the system. Moreover, all transfers of up to 10 million HUF must be executed as IPs which by law replaced regular credit transfers. There is also price regulation forbidding PSPs to charge more for an IP transaction in HUF than for a regular credit transfer. A transfer is made available to the beneficiary within five seconds, and the amount credited in the account of the beneficiary is both irrevocable and immediately at the disposal of the account owner. Proxies such as mobile phone number or tax number may be used as an alternative to account number. The growth in uptake of IPs is also expected to be aided by a requirement that all brick-and-mortar stores accept electronic payments (from 2021).

Already in the year of their launch (2020), the uptake of IPs in HUF is estimated at 30%<sup>227</sup>. According to ACI Worldwide, the trend is growing and it is estimated that further growth in IP volume, in 2026 net savings for consumers and businesses would reach US\$ 131 million, generating an additional US\$ 415 million of economic output,

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<sup>222</sup> [npc010-01-2021-nct-instant-rulebook-version-11.pdf \(nordicpaymentscouncil.org\)](https://nordicpaymentscouncil.org/npc010-01-2021-nct-instant-rulebook-version-11.pdf)

<sup>223</sup> [One step closer to easier and faster payments across the Nordic countries \(financedenmark.dk\)](https://financedenmark.dk/one-step-closer-to-easier-and-faster-payments-across-the-nordic-countries)

<sup>224</sup> [PowerPoint-presentation \(nordicpaymentscouncil.org\)](https://nordicpaymentscouncil.org/powerpoint-presentation)

<sup>225</sup> Sources: ECB, ACI Worldwide [[Prime-Time-for-Real-Time-Report-2022.pdf \(aciworldwide.com\)](https://www.aciworldwide.com/prime-time-for-real-time-report-2022.pdf)], Commission calculation

<sup>226</sup> [decree-no-35-2017-xii-14.pdf \(mnbn.hu\)](https://mnbn.hu/decrees/decree-no-35-2017-xii-14.pdf)

<sup>227</sup> Sources: ECB, ACI Worldwide [[Prime-Time-for-Real-Time-Report-2022.pdf \(aciworldwide.com\)](https://www.aciworldwide.com/prime-time-for-real-time-report-2022.pdf)], Commission calculation

equivalent to 0.19% of the country's forecast GDP. Importantly, due to the abovementioned setup features and support from the authorities, Hungary is considered by ACI Worldwide as one of the countries for which IPs could provide the biggest economic growth opportunities.

### Poland

Poland was among the very first European countries to launch two IP settlement infrastructures in national currency, known as Express Elixir and BlueCash, both launched in 2012. In terms of an end-user solution, Blik is a payment system launched in 2015 that allows users to make IPs and withdraw cash using only the user's standard mobile banking app; it now has nearly 9 million users. However, the uptake of IPs in PLN remains low, and in 2020 is estimated at around 2%<sup>228</sup>. It has been observed<sup>229</sup> that one of the factors that have restrained the growth rate in the uptake of IPs was that the PSPs decided to position them as a premium service, thus charging relatively high fees to IP users.

### Sweden

IPs in SEK were developed by the banking sector without regulatory intervention and launched in 2013. Since 2021 they are based on a scheme of the Nordic Payments Council (see above for Denmark), based on a licence agreement signed with EPC to use SCT Inst. Scheme as foundation. This means that in practice Swedish PSPs already *de facto* comply with majority of SCT Inst. Scheme rules. At present, IPs are available only via the interbank Swish app in Sweden not via online banking. There are no fees for consumers but businesses are charged fees to use Swish. Initially launched as a P2P service, Swish has supported payments to businesses since 2014 and, since 2017, is increasingly used for e-commerce payments<sup>230</sup>. Since May 2022, SEK IPs are settled in the ECB's TIPS (the same as that used for euro IPs). 80% of the adult population uses Swish and Swish transactions have overtaken cash transactions in number (in 2021 778 million IP transactions took place). The uptake of IPs in SEK in 2020 is estimated at 35%<sup>231</sup>, benefiting from the pricing of IPs, convenient accessibility for users via Swish app and growing usage of IPs at PoI.

### Romania

The IP settlement system in Romania in RON was developed in 2019 by Transfond. The Scheme for IPs in RON was developed by the Romanian Banking Association, who signed a license agreement with the EPC to use the SCT Inst Scheme as foundation for their national instant credit transfer payment scheme. This means that in practice Romanian PSPs already *de facto* comply with majority of SCT Inst. Scheme rules. Five

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<sup>228</sup> Sources: ECB, ACI Worldwide [[Prime-Time-for-Real-Time-Report-2022.pdf](#) ([aciworldwide.com](#))], Commission calculation

<sup>229</sup> [Are instant payments becoming the new normal? A comparative study](#) ([europa.eu](#))

<sup>230</sup> [Instant Payments at the POI in Sweden](#) ([europa.eu](#))

<sup>231</sup> Sources: ECB, ACI Worldwide [[Prime-Time-for-Real-Time-Report-2022.pdf](#) ([aciworldwide.com](#))], Commission calculation

Romanian banks offer IPs in RON and the reported uptake as of May 2021 was at 1.25%<sup>232</sup>.

There are no well-established end-user PoI solutions based on IPs originating from Romania at the moment. However, Transfond is developing a service called AliasPay, which will allow the initiation of payments through a mobile device using only the payee's mobile phone number instead of their IBAN. This is expected support the Romanian banking community in developing and delivering innovative and competitive payment services.

### Croatia

Croatia launched its IP system, NKSInst, in October 2020, and a proxy lookup service was added in March 2021. Croatia is set to join the Euro area on 1 January 2023. Like in Romania, both PSP communities already rely on scheme rules based on the EPC Scheme through a licence agreement. Because NKSInst is based on SCT Inst Scheme, it would only take a marginal investment for PSPs to process euro IPs according to the SCT Inst. Scheme. Given the recent nature of NKSInst, the uptake of IPs in Croatia is still marginal.

### Bulgaria

In 2021 the national retail and card payment system operator BORICA AD implemented a project for IPs in BGN based on the SCT Inst Scheme. By April 2023 all banks operating in the country should be able to receive and process instant payments in BGN. Bulgaria announced its plans to join the Euro area on 1 January 2024.

## **(b) IPs in global currencies**

### Australia

IPs were launched in Australia in 2018 with the New Payments Platform (NPP) of the Reserve Bank of Australia and its Payments System Board. Participation is not obligatory for PSPs, and at the end of 2021 over 100 PSPs offered IPs for almost 90 million customer accounts. While most of those PSPs are banks, there are also a number of non-bank institutions that are using IPs to offer their customers faster payments and innovative services.

According to the Reserve Bank of Australia, the share (uptake) of account-to-account credit transfers that are made via IPs in 2021 has risen to around 30%. Notably, the Australian government has also become a significant user of IPs, with more than AUD 12 billion of payments for COVID-related support and disaster relief made via IPs in the second half of 2021. IPs enabled the government to provide support to households affected by bushfires and floods in near real time, including on weekends.<sup>233</sup>

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<sup>232</sup> Source: National Payment Committee

<sup>233</sup> [Real-time Payments in Australia \(rba.gov.au\)](https://rba.gov.au/real-time-payments)

## Brazil

IPs were launched in 2020 by the Central Bank of Brazil via PIX, an account-to-account payment method, which is managed, owned and operated by it. PSPs with over 500 000 customer accounts are required to offer PIX but many smaller ones also do so. As of March 2022, there were over 1.6 billion PIX operations per month and over 124 million registered users; over 70% of the adult population has made a PIX operation.<sup>234</sup> The Central Bank mandated participation in PIX by banks and other payment institutions with more than 500 000 transaction accounts<sup>235</sup>. PIX transactions are required by regulation to be free for individuals but banks can set fees for merchants and corporate customers freely (but it is estimated that more than half of participating PSPs do not apply charges to corporates). Consumers can pay at PoI using a PIX via QR code at checkout.

According to ACI Worldwide, in 2021 Brazil recorded 8.7 billion IPs. Despite the recent launch of PIX, the uptake of IPs is estimated at around 90% of all credit transfers. The widespread adoption of real time payments resulted in estimated cost savings of US\$ 5.7 billion for businesses and consumers in 2021, which helped to unlock US\$ 5.5 billion of additional economic output, representing 0.34% of the country's GDP.

## Hong Kong

Launched in 2018, IPs (Faster Payment System, or FPS, available in both Hong Kong dollar and Renminbi) have already achieved a significant uptake in Hong Kong, with 262 million transactions in 2021, representing 19% of all electronic payments (including also other payment methods such as card payments). By end 2021, the FPS recorded 9.62 million registrations, up by 40% or 2.7 million registrations year-on-year. FPS payments at PoI with QR code are possible, and FPS can be integrated in digital wallets. As a result, the usage of FPS for merchant payments has been growing and in 2021 constituted 17% of all transactions in HKD.<sup>236</sup>

## India

IMPS (Immediate Payment Service) was launched in 2010 and it was upgraded in 2016 via a Unified Payments Interface (UPI), allowing any consumer to initiate a payment via any payment app of any PSP. In 2021, India recorded 48.6 billion IP transactions, more than any other country. The use of proxies such as mobile phone numbers is possible. Cross-border interlinkage of UPI to Singapore and UAE is planned.

As of April 2022, the uptake of IPs (as a share of all retail credit transfers) was in excess of 90%<sup>237</sup>, possibly the highest in the world. Moreover, ACI Worldwide estimates that with consumers increasingly shifting from cash to mobile-based real-time payments,

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<sup>234</sup> [Pix Statistics \(bcb.gov.br\)](https://www.bcb.gov.br/ingles/estatisticas/PIX)

<sup>235</sup> [BIS Bulletin no.52: Central banks, the monetary system and public payment infrastructures: lessons from Brazil's Pix](#)

<sup>236</sup> <https://www.hkma.gov.hk/media/eng/doc/about-the-hkma/legislative-council-issues/20220207e1.pdf>

<sup>237</sup> Source: [https://rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/43T\\_160620224EB5478375DF4232A08C24AA8CB15963.PDF](https://rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/43T_160620224EB5478375DF4232A08C24AA8CB15963.PDF)

skipping payment cards, the share of IP volume in total payments (i.e., including cash and cards) will rise from 31% in 2021 to more than 70% in 2026 which would deliver net savings for businesses and consumers of US\$ 92.4 billion, helping to generate an additional US\$ 45.9 billion of economic output (equivalent to 1.12% of the country's forecast GDP in 2026).

### Mexico

The SPEI (Sistema de Pagos Electrónicos Interbancarios) IP system was launched in Mexico under the impetus of the central bank as early as 2004. Under central bank pressure, all banks participate and there are no charges. However, uptake has been slow, due to a very large unbanked population, a tradition of paper transactions (86% of all payments in Mexico are paper-based not electronic), and banks not actively advertising the system due to low revenue.

In 2019, an overlay solution (Cobro Digital) permitting payment via QR codes, bar codes and NFC was added, which helped to gain some traction in the growth of IPs in recent years. In 2021, IPs via SPEI constituted 22% of all electronic payments (including card payments) by volume and 82% by value, meaning that IPs tend to be used for high value payments in Mexico, probably B2B payments rather than retail payments.

### Singapore

IPs (Fast And Secure Transfers, or FAST) were introduced in Singapore in 2015 under the impetus of the Singapore Monetary Authority. An overlay app, PayNow<sup>238</sup>, was introduced in 2017, facilitating their use. In 2021 IPs constituted 15% of all electronic payments (including card payments) by volume and 37% by value (which implies a significant B2B use of IPs). A cross-border linkage to the IP system of Thailand has been developed, allowing cross-border payments between the two countries.

### United Kingdom

In the UK, 'faster payments' are executed within 15 seconds but may take up to two hours to be credited to the payee's account by the payee's PSP. They were developed by the banking sector in the early 2000s, and launched in 2008, under pressure (but not a legal obligation) from the Office of Fair Trading<sup>239</sup>. Although limited numbers of banks participated at first, in 2012 a large number of PSPs joined the system, as the implementation of the first Payment Service Directive (PSD1) required transactions to be credited to the payee by the next business day, and the previous credit transfer system (BACS direct credits) could not guarantee this.

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<sup>238</sup> [PayNow Singapore \(abs.org.sg\)](https://abs.org.sg)

<sup>239</sup> Office of Fair Trading (2003). UK payment systems: An OFT market study of clearing systems and review of plastic card networks. Office of Fair Trading (2005). First annual progress report of the Payment Systems. Task Force: A report prepared for the Payment Systems Task Force. Office of Fair Trading (2007). Final report of the Payment Systems Task Force.



By the first quarter of 2021, the uptake of faster payments in GBP in the UK was exceeding 50%<sup>240</sup>. Faster payments are now usually the default for credit transfers ordered via online banking applications, and transaction fees are rare (however there is no regulation of pricing). Credit transfers other than faster payments have slightly declined since the launch of faster payments, and the use of cheques has declined significantly (a long term trend which started before 2008).

### **Sources for this Annex:**

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- Speech *Real-time Payments in Australia*, Ellis Connolly, Head of Payments Policy Department, Reserve Bank of Australia (<https://www.rba.gov.au/speeches/2022/pdf/sp-so-2022-05-03.pdf>)
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- Briefing to the Legislative Council Panel on Financial Affairs, Hong Kong Monetary Authority (<https://www.hkma.gov.hk/media/eng/doc/about-the-hkma/legislative-council-issues/20220207e1.pdf>)
- Payment System Indicators, RBI Bulletin June 2022, Reserve Bank of India ([https://rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/43T\\_160620224EB5478375DF4232A08C24AA8CB15963.PDF](https://rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/43T_160620224EB5478375DF4232A08C24AA8CB15963.PDF))
- European Automated Clearing House Association (EACHA)

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<sup>240</sup> Source: European Automated Clearing House Association (EACHA)

## ANNEX 7: EU NON-CASH PAYMENTS MARKET AND CHARACTERISTICS OF PSPs PROVIDING CREDIT TRANSFERS IN EURO

### EU market shares of various non-cash payment instruments

According to the estimates of the ECB, slightly less than three-quarters (73%) of all payments at the Point of Interaction in the Euro area in 2019 were cash payments.<sup>241</sup>

As regards the market for non-cash payment instruments, its size in the EU27 in 2020 amounted to EUR 203.5 trillion, of which credit transfers in all currencies made up EUR 189.7 trillion (93.2%), while euro credit transfers made up EUR 68.3 trillion.<sup>242</sup> Transactions of IPs in euro amounted to an estimated EUR 1.6 trillion (or 2.3% of all euro credit transfers).<sup>243</sup>

In terms of the number (volume) of transactions, the size of the non-cash payments market in 2020 was 127.3 billion transactions, of which credit transfers in all currencies made up 31.7 billion transactions (or, 24.9%), while credit transfers in euro made up 22.5 billion transactions (or, 17.7%). Among the latter, transactions of IPs in euro amounted to 1.8 billion, resulting in the euro IP uptake of 7.9%.<sup>244</sup>

Payment instrument / service	Volume, million of transactions		Value, billion euro	
	2020	% of all payments	2020	% of all payments
Credit transfers (all currencies)	31 738	24.9%	189 727	93.2%
of which credit transfers in euro	22 523	17.7%	68 334	33.6%
of which instant payments in euro	1 783	1.4%	1 600	0.8%
Direct debits	23 089	18.1%	6 781	3.3%
Cheques	1 387	1.1%	1 427	0.7%
Card payments	63 680	50.0%	2 335	1.1%
Electronic money	6 149	4.8%	259	0.1%
Other	1 285	1.0%	2 970	1.5%
<b>Total EU 27</b>	<b>127 329</b>	<b>100.0%</b>	<b>203 498</b>	<b>100.0%</b>

Source: ECB, National Payment Committees, Commission calculation

### Characteristics of PSPs carrying out regular and instant credit transfers in euro

Credit transfers (including IPs) can be carried out by a range of PSPs, including credit institutions, electronic money institutions, payment institutions, post offices, central banks, regional or local authorities, finance companies, investment firms, clearing and custody institutions, etc. These entities can carry out credit transfers as a payment service offered to users or on own account.

<sup>241</sup> Based on a survey of 41 155 consumers carried out in 2019. See [Study on the payment attitudes of consumers in the euro area \(europa.eu\)](https://ec.europa.eu/economy_finance/studies/study_on_the_payment_attitudes_of_consumers_in_the_euro_area_europa.eu).

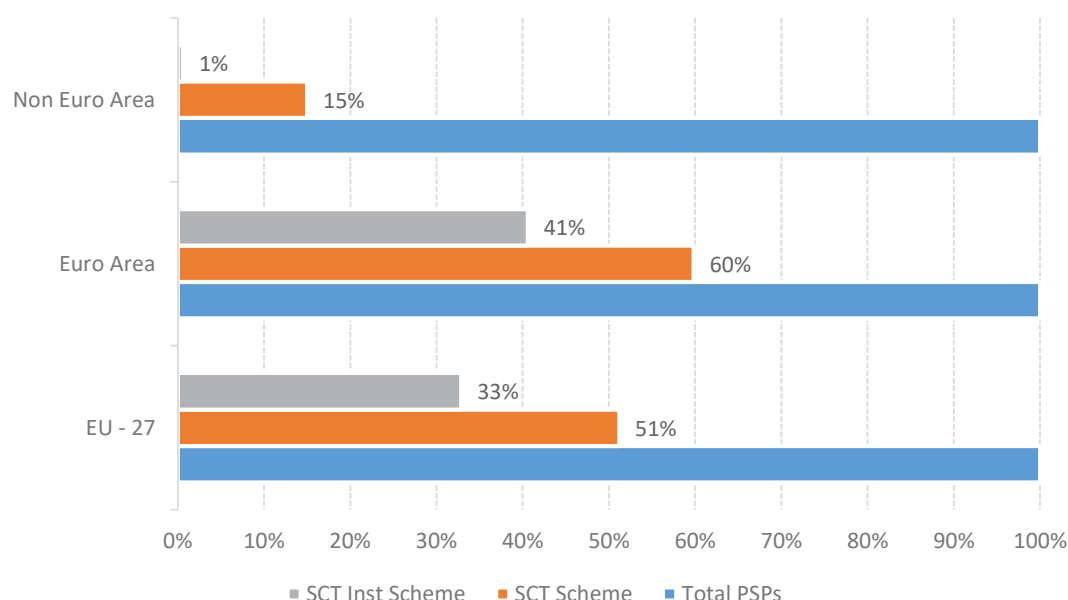
<sup>242</sup> Source: ECB.

<sup>243</sup> Source: National Payment Committees, ECB, Commission calculation.

<sup>244</sup> As of the last quarter of 2021, the estimated uptake of euro IPs increased to 10.97% (EPC).

According to the ECB, at the end of 2020 there were 6 917 entities in the EU offering payment services in various currencies, of which 5 584 were established in the Euro areas, while the remaining 1 333 outside the Euro area. Of those 6 917 entities, 3 541 (or 51%) adhered to the SCT Scheme and carried out regular credit transfers in euro. In the Euro area Member States, the proportion of PSPs carrying out regular credit transfers (in euro) was equal to 60%, while in the non-Euro area it was four times lower and stood at 15%, as shown in the chart below:

Chart: Participation of PSPs in SCT Scheme and SCT Inst Scheme



Source: ECB, EPC, Commission calculation

As regards the size of PSPs adhering to the two Schemes, the below table shows the distribution of 3 064 PSPs that adhere to the SCT Scheme and whose total assets data was available in the ORBIS database. The PSPs are segregated in 5 buckets of comparable size in terms of number of PSPs participating in the SCT Scheme, with the participation in the SCT Inst. Scheme within each of those buckets being indicated in absolute and relative terms as well. The figures suggest that PSP size does not appear to be an important factor determining PSP's decision to adhere to the SCT Inst. Scheme. In fact, a somewhat lower share of participation is observed both among the smallest PSPs and the largest PSPs (with the latter having the lowest share of participation in SCT Inst Scheme among all five buckets).

Size bucket	Size bucket, total assets EUR mln	PSPs in SCT Scheme	PSPs in SCT Inst Scheme	% of PSPs in SCT Inst Scheme
1	< 190 mln	617	408	66%
2	>=190 mln and <520 mln	608	492	81%
3	>=520 mln and <1450 mln	614	472	77%
4	>=1450 mln and <4200 mln	608	466	77%
5	>=4200 mln	617	382	62%
<i>Total</i>		<i>3 064</i>	<i>2 220</i>	<i>72%</i>

Source: ORBIS (data as of October 2021), EPC, Commission calculation

In terms of trade description (or specialisation) of PSPs, the below table shows the breakdown of 3 400 PSPs that adhere to the SCT Scheme on the basis of the data in the ORBIS database.

<b>Specialisation / Trade Description</b>	<b>PSPs in SCT Scheme</b>	<b>PSPs in SCT Inst Scheme</b>	<b>% of PSPs in SCT Inst Scheme</b>
Cooperative Bank	1 599	1 477	92%
Commercial Bank	527	172	33%
Savings Bank	497	452	91%
Private Banking	86	19	22%
Finance Company	67	11	16%
Investment Bank / Security House	48	13	27%
Real Estate / Mortgage Bank	44	15	34%
Specialized Governmental Credit Institution	36	12	33%
Central Bank	20	5	25%
Securities Firm	10	0	0%
Non Banking Credit Institution	9	2	22%
Bank Holding Company	5	2	40%
Clearing & Custody Institution	5	0	0%
Diverse / not available (incl. credit unions, EMIs, PIs)	447	107	24%
<i>Total</i>	<i>3 400</i>	<i>2 287</i>	<i>67%</i>

Source: ORBIS (data as of October 2021), EPC, Commission calculation

## ANNEX 8: REDUCTION OF PAYMENT FLOAT

### Background

The ‘payment float’ represents the funds in transit in the payment system between the payment accounts of the payer and the payee. The float occurs between the time when the funds are (i) debited from the payer’s account by the payer’s PSP (which happens immediately after the payment order is received by the payer’s PSP) and (ii) credited to the payee’s account by the payee’s PSP (which can happen days later). It is considered by regulators as an inefficiency in the payment system which generates costs for payment service users, as the funds caught in the float are not available for consumption or investment.<sup>245</sup> The presence of the ‘payment float’ is brought about by technological, procedural and settlement infrastructure constraints. Some of those constraints have evolved or eased markedly in the course of the recent years, in part due to the measures taken by the policy makers internationally, which aimed to tackle the inefficiencies arising from the float. For example, as from 1 July 2000, Norwegian banks were no longer allowed to earn float income<sup>246</sup>. In 2005 the UK authorities requested the elimination of the float for credit transfers (settlement of which at the time was up to three business days) via the introduction of ‘faster’ payments.<sup>247</sup>

In the EU, the impact assessment of the European Commission accompanying the legislative proposal for the first Payment Services Directive 2007/64/EC (PSD1) noted that for businesses, the delays related to float can have a substantial impact on cash flow, working capital and processing costs causing serious problems, and this situation has been widely criticised by corporate customers and SMEs. The study argued that the float represents an inefficient drag on the rest of the economy if “artificial” delays in the availability of funds negatively affect the cash flow of companies and individuals, finally impacting on the efficient allocation of capital<sup>248</sup>. As a result, PSD1 harmonised and gradually reduced the maximum execution time of regular credit transfers, initially, by capping it at three business days for electronically-initiated transactions and four business days for the paper-initiated ones and, from 2012, at one and two business days, respectively, in order to improve the efficiency of payments throughout the EU.<sup>249</sup> Prior to the implementation of the PSD1, the execution time for outgoing transactions varied considerably between PSPs, in some cases reaching up to as much as 10 days.<sup>250</sup>

Moreover, since PSD1 Member States have discretion to impose even shorter maximum execution timelines for national payment transactions and some Member States have done so recently (e.g., Hungary).

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<sup>245</sup> [Economic impact of real time payments | Deloitte Luxembourg | Financial Services](#)

<sup>246</sup> Act on Financial Contracts and Financial Assignments (Financial Contracts Act), No. 46 of 25 June 1999 (in force 1 July 2000) [[Microsoft Word – lov-19990625-046-eng.doc \(uio.no\)](#)]

<sup>247</sup> <https://webarchive.nationalarchives.gov.uk/ukgwa/20131101202847/http://www.oft.gov.uk/news-and-updates/press/2005/94-05>

<sup>248</sup> [st15625-ad01.en05.doc \(europa.eu\)](#)

<sup>249</sup> See recital (43) and Article 69(1) of PSD1 [<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32007L0064&from=EN>]

<sup>250</sup> [study-impact-psd-24072013\\_en.pdf \(europa.eu\)](#)

## Instant payments and reduction of float

### *Reduced float and its impact on payment services users*

IPs have the potential to reduce the payment float given that they are expected to displace payment means that have a longer settlement cycle, such as regular credit transfers or cheques. As shown in Annex 7, the annual value of regular euro credit transfers and cheques in 2020 was equal to EUR 68 161 billion<sup>251</sup>. On this basis it can be estimated that on any given day an amount equivalent to EUR 187 billion was locked in the financial system, assuming that their execution would take place only on a business day that follows the business day of their initiation<sup>252</sup>. Under the assumption of the uptake of IPs of 50% and a full displacement of cheques, it is estimated that the daily payment float would be reduced by EUR 96 billion<sup>253</sup>, whereas under the assumption of the uptake of IPs of 70%<sup>254</sup> and a full displacement of cheques, the daily float would be reduced by EUR 132 billion<sup>255</sup>.

The main benefit of the reduced float is that the funds in transit would become available to payees (consumers, businesses, public administrations) much sooner, i.e., within 10 seconds from the moment of being sent by the payer, compared to one-to-two business days later in the case of regular credit transfers. This would enable those payees to realise the cost savings of financing their working capital or short-term spending, and make use of the funds immediately for consumption or investment, thus, boosting aggregate

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<sup>251</sup> The assumption that IPs (and not regular credit transfers) will displace cheques is linked to the features of these payments means and is also informed by the findings of external studies. The study by Fidelis Consulting [<https://op.europa.eu/en/publication-detail/-/publication/735d5b9d-0c5e-11ec-adb1-01aa75ed71a1/language-en/format-PDF/source-228716981>] argues that one of the main reasons behind the use of cheques is that they provide the beneficiary with a seeming certainty of payment (since there is a risk that the payer wrote a cheque without sufficient funds available in their payment account). Thus, in some Member States cheques are commonly used to make a deposit / down-payment in order to reserve a rental agreement of an accommodation). IPs will provide an indisputable certainty of payment to the beneficiary, with a strong advantage of also reaching the beneficiary's account immediately (as opposed to cheques where it may take several days) which could be verified by the beneficiary while concluding the agreement. A similar conclusion is reached in the study by Deloitte [[Economic impact of real time payments | Deloitte Luxembourg | Financial Services](#)] which observes that cheques are time-inefficient payment instrument and that IP features such as real time settlement and notification, as well as the greater ease of making payments efficiently and securely are likely drivers of the displacement of cheques.

<sup>252</sup> For cheques and paper-initiated regular credit transfers the float would be longer, while for the 'on-us' regular credit transfers the float would normally be shorter, as debiting the account of the payer and crediting the account of the payee could take place on the same day. For the calculation of the payment float, it was assumed that in all these instances the crediting of the payee's account takes place on a business day that follows the business day of the initiation of the underlying payment transaction (which is the case with the electronically initiated regular credit transfers).

<sup>253</sup> Consisting of EUR 4 billion from the displacement of cheques and EUR 92 billion from the displacement of regular euro credit transfers.

<sup>254</sup> The assumption of the uptake of IPs of 50% is considered as a realistic and central assumption within 3-5 years of implementation of measures included in this initiative, while the assumption of the uptake of 70% represents a higher, more optimistic, level which is still attainable in view of the fact that the uptake in one Member State is already close to 70% in absence of EU legislation.

<sup>255</sup> Consisting of EUR 4 billion from the displacement of cheques and EUR 128 billion from the displacement of regular euro credit transfers.



economic activity. Based on the analytical model employed by Deloitte<sup>256</sup>, such benefits are estimated to fall in the range of EUR 1.34 to 1.84 billion annually, depending on the eventual uptake of IPs (50%-70%) and assuming an annual interest rate of 1%. The study by Fidelis Consulting estimated those benefits to range between EUR 0.68 billion to EUR 1.83 billion per year, reflecting a broader range of scenarios considered<sup>257</sup>.

### *Impact on PSPs*

Those benefits are assumed to be currently flowing to PSPs as they are in a position to generate revenues by placing the funds arising from the payment float in short-term investments. It is estimated that at the industry level such revenues would represent less than 0.3% of the total annual net operating income.<sup>258</sup> The above re-distribution of those benefits is not seen as an unintended consequence, as from the regulation point of view the payment float is considered as an inefficiency in payments to the detriment of payment services users, rather than a deliberate policy targeted to aid PSPs' profitability. Moreover, the possibility for PSPs to generate earnings from the payment float creates disincentives for PSPs to innovate and improve the efficiency of payments.

In terms of the impact of the reduced payment float on liquidity and its management by PSPs, several aspects have been assessed. The abovementioned reduction of the payment float is assumed to be predominantly driven by the displacement of regular credit transfers by IPs. As a result of this, there could be an impact on the amount of liquidity that PSPs would have to hold in their settlement account in the relevant payment systems (such as TIPS or others) to facilitate a seamless settlement of IPs, in view of the fact that IPs are settled in real time individually on gross basis whereas regular credit transfers are settled in cycles (once or several times per business day) and where the payment owed to other PSPs represents a multilateral net liquidity need. In this regard, the study conducted by the Bank of Finland<sup>259</sup> looked into the additional liquidity that PSPs would have to hold in their settlement account under the scenario of a full migration from regular credit transfers to IPs (i.e., 100% uptake of IPs). The study estimated that under such a scenario, the aggregate increase in daily liquidity needs held by Finnish PSPs would be small, i.e., on average 2.7%, and would not exceed 8.7% in 95% of the cases. Under the IP uptake assumptions considered by this impact assessment (50%-70%), an accordingly lower increase of liquidity needs in settlement accounts can be reasonably assumed. The study also observed that the timing for a transition to IPs might be favourable as the high liquidity levels currently held by PSPs could accommodate any temporary increases in liquidity needs.

It should be pointed out that one of the implicit assumptions of the abovementioned Bank of Finland study was that all PSPs both send and receive IPs. The main driver for the increased liquidity balance at the PSP level being the value of IPs sent, in a scenario

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<sup>256</sup> [Economic impact of real time payments | Deloitte Luxembourg | Financial Services](#)

<sup>257</sup> Study of Fidelis Consulting, <https://op.europa.eu/en/publication-detail/-/publication/735d5b9d-0c5e-11ec-adb1-01aa75ed71a1/language-en/format-PDF/source-228716981>

<sup>258</sup> On the basis of the total annual net operating income of EUR 417 billion for banks covered by the 2021 EU-wide stress test. The figure is grossed up to EUR 596 billion, to reflect the fact that only banks covering 70% of the total industry assets were included in the exercise (and not grossed up for the assets of payment institutions and e-money institutions) [ [2021-EU-wide-stress-test-Results.pdf \(europa.eu\)](#) ].

<sup>259</sup> [Instant payments as a new normal: Case study of liquidity impacts for the Finnish market \(helsinki.fi\)](#)

where PSPs only receive but not send IPs (which is reflected under option 1.1) there would be no impact on additional liquidity needs of such PSPs. This would result in an asymmetric outcome as only the PSPs that both send and receive IPs would face possible increases in liquidity needs, while the PSPs that only receive IPs would have no such costs and, in addition, would continue to be able to benefit from the payment float arising from the regular credit transfers sent, which is likely create a disincentive for them to voluntarily migrate to the sending of IPs.

Also, when assessing the impact on the increased liquidity needs due to the way that euro IPs are settled in TIPS, several measures that are being put in place by the ECB should be mentioned. First, PSPs are able to move funds from their account in TARGET2 to their IP settlement account in TIPS, while being able to count the sum of the two balances for the purposes of meeting the reserve requirement of the central bank, which should allow PSPs to manage their liquidity in accounts with the central bank more flexibly. Second, the measures included in the Pan-European Reachability Package<sup>260</sup> require that all Automated Clearing Houses (ACHs) that offer IP services migrate their technical accounts from TARGET2 to TIPS. In turn, this does also contribute to PSPs' ability to settle IPs in a timely manner and optimise their liquidity management, as the funds that they may have in their accounts in TIPS and ACH(s) could be moved around as needed on 24/7 basis. The ECB is actively monitoring the dynamics in this area and could consider additional measures, if necessary, to ensure a smooth settlement of IPs as their uptake increases.

From the point of view of the ability of PSPs to comply with prudential liquidity requirements, the abovementioned reduction in the payment float is not expected to weaken the overall liquidity position of individual PSPs, as with IPs the funds are simply moving from one PSP to another faster. More specifically, with an IP, the transferred funds would reach the payee's PSP already on the day of the transfer, while in case of a regular credit transfer between different payer's and payee's PSPs those same funds would remain on the balance sheet of the payer's PSP until the next business day. Since each PSP, for different IP transactions, acts both in the capacity of the payee's PSP and the payer's PSP (except for option 1.1), this effect should be evenly distributed among PSPs and cancel itself out. For intra-PSP IP transactions, there would be no impact on PSPs either, as funds remain with the PSP.

In its targeted consultation with PSPs, the Commission services sought PSPs' views on whether there would be a risk that existing liquidity management tools and relevant prudential requirements (such as the Liquidity Coverage Ratio, LCR) may not be sufficiently effective or adequate in view of the increases in the uptake of IPs. The obtained feedback reflected a largely consensual view that IPs would not have an impact on PSPs' compliance with LCR as the latter is calibrated to ensure that banks withstand at all times (and therefore also intra-day) stress conditions computed over a 30-days period. Rather, for the management of the liquidity risk related to IPs, PSPs' capacity to manage intra-day liquidity was deemed to be relevant. In this regard, some PSPs indicated that they manage their intra-day liquidity risk pertaining to IPs through internal forecasting / modelling and stress testing for various relevant scenarios.

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<sup>260</sup> [ECB takes steps to ensure pan-European reach of instant payments \(europa.eu\)](https://ec.europa.eu/economy_finance/press-room/2018/01/20180126-ecb-takes-steps-to-ensure-pan-european-reach-of-instant-payments)

As concerns credit institutions<sup>261</sup>, the current liquidity framework applicable to them includes a number of provisions that address intra-day liquidity risk arising from IP operations. More specifically, Article 86 of the CRD<sup>262</sup> requires competent authorities to ensure that banks adopt policies to manage their intra-day liquidity risk, while the EBA Supervisory Review and Evaluation Process (SREP) guidelines<sup>263</sup> require banks to closely monitor their intra-day liquidity. In addition, credit institutions are required to meet the LCR at all times, including intra-day liquidity flows. Thus, the LCR captures all liquidity inflows and outflows, including those due to instant payment. The LCR Delegated Act<sup>264</sup> contains provisions that are able to capture the issues posed by instant credit transfers<sup>265</sup>.

On the basis of the above analysis and the feedback from the Member State experts in the context of discussions in CEGBPI, it was concluded that a regulatory intervention in the area of prudential requirements dealing with the management of the intra-day liquidity risk is currently not warranted.

#### *Impact on financial stability*

The above analysis lends support to an assessment that, under normal market conditions, the impact of a greater uptake of IPs and a reduced payment float on liquidity and its management by PSPs should not pose major risks for financial stability. Likewise, it appears that the gradual reductions in the payment float due to past regulatory interventions such as PSD1 did not create any unintended systemic consequences and no such evidence is available in the national markets that are the ‘front-runners’ in adoption of euro IPs and that, as a result, substantially reduced the float domestically. For the remaining EU PSPs and individual Member States, the estimated increase in the uptake of IPs is expected to be gradual and, therefore, would allow the industry to make any necessary adjustments over time. Globally, by now IP services have been launched in over 60 jurisdictions<sup>266</sup> and there is little, if any, evidence suggesting their negative impact on the financial stability.

Nevertheless, via the open public consultation stakeholders were consulted on whether the availability of IPs could aggravate bank runs, by possibly facilitating sudden and substantial outflows of liquid funds from a PSP. The analysis of their feedback showed that the majority (71%) of respondents who expressed a view on the issue did not think that IPs could aggravate bank runs and, therefore, contribute to bank failures. This is because of the safeguards that already exist, such as the pre-funded nature of IP

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<sup>261</sup> Prudential liquidity requirements applicable to payment institutions and e-money institutions are not analysed in the annex, as those entities are excluded from the scope of the preferred option 1.2.

<sup>262</sup> Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC

<sup>263</sup> [Guidelines for common procedures and methodologies for the supervisory review and evaluation process \(SREP\) and supervisory stress testing | European Banking Authority \(europa.eu\)](#)

<sup>264</sup> Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions

<sup>265</sup> For instance, Article 5 on LCR stress scenarios envisages as “stress indicators” unscheduled draws on liquidity (lit. f).

<sup>266</sup> See annex 6.

settlement accounts with CSMs (which act as an implicit cap of how much funds could leave a PSP via IPs on a given day) or various daily/transaction limits that PSPs apply (for more details on the consultation feedback see Annex 2). The question of whether any unaddressed risk remains and, if so, whether any additional measures would be needed to deal with it was also discussed with Member State and industry experts in two Commission working groups (CEGBPI and PSMEG, respectively). Neither group of experts expressed support for additional crisis prevention or management measures, given the robust and recently introduced European crisis management framework (consisting of BRRD<sup>267</sup> and SRMR<sup>268</sup>) and the presence of the above mentioned prudential requirements pertaining to the management of the ‘intra-day’ liquidity risk.

When assessing whether IPs may contribute to inter-PSP contagion and thus pose any risk for financial stability, it shall be recalled that the existing Settlement Finality Directive (SFD)<sup>269</sup> further limits this risk, as it guarantees that IP orders entered by the payer’s PSP into a ‘designated’ payment system cannot be revoked or invalidated even in the event of the PSP’s insolvency. However, it should be noted that given the real-time settlement process of IPs, the risk of their revocation is inherently lower compared to regular credit transfers.

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<sup>267</sup> Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council

<sup>268</sup> Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010

<sup>269</sup> Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998 on settlement finality in payment and securities settlement systems

## **ANNEX 9: BACKGROUND ON THE FUNCTIONING OF CROSS-BORDER TRANSFERS IN THE EU**

In order to make a payment cross-border within the EU (between any two Member States), EU citizens and businesses can use credit transfers, direct debits or card payments.

With regard to direct debits, it was not possible to set up cross-border direct debit until the adoption of the 2012 SEPA Regulation. The only cross-border direct debit possible today is that denominated in euro (a SEPA direct debit).

With regard to card payments, the only cross-border card payments possible are via the International Card Schemes (mainly Visa and Mastercard).

With regard to cross-border credit transfers in the EU, these can be done in two main systems:

- SWIFT<sup>270</sup>: available for credit transfers denominated in nearly all global currencies, including non-euro EU currencies, except euro. SWIFT transfers are more costly for the PSPs, who need to rely on intermediaries such as correspondent banks, and the fees applied to users are usually several times higher than the fees for SEPA transactions<sup>271</sup>. SWIFT transfers take approx. 1 to 5 working days (depending on the number of intermediaries involved, etc.);
- SEPA: available for credit transfers denominated only in euro (and mandatory for euro transfers). They are less costly for PSPs to provide as they do not need to rely on intermediaries and they are executed in the same way as domestic euro credit transfers. Pricing varies by individual PSPs, who tend to set it at zero (practice applied by many PSPs within and outside Euro area). Where a fee is applied, it is many times lower than the fee for a SWIFT transfer. An electronically-initiated cross-border regular SEPA credit transfer normally takes one business day to execute, and a cross-border instant SEPA credit transfer takes less than 10 seconds.

It is an individual decision of every PSP (within and outside the Euro area) whether they wish to offer credit transfers, and in which currency. A PSP wishing to offer credit transfers denominated in euro must offer SEPA credit transfers (regular and/or instant).

The denomination of a credit transfer is not dependent to the denomination of the payment account from/to which a credit transfer is sent/received (e.g. it is possible to send and/or receive a credit transfer denominated in euro to/from a payment account denominated in a different currency). In such cases, it is either the sending or the receiving PSP, or both, that performs the currency conversion into/from euro before sending the SEPA credit transfer or after receiving it. Even in cases where a credit

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<sup>270</sup> [Homepage | SWIFT - The global provider of secure financial messaging services](#)

<sup>271</sup> Based on desk research (e.g. in PL, PSPs tend to charge between zero and 5 PLN for a SEPA euro credit transfer initiated electronically, and 20-35% of the value of the transferred amount and up to 250PLN for a SWIFT transfer)

transfer involves a currency conversion between euro and the currency of a Member State outside the Euro area, such a SEPA credit transfer must be executed by the end of the next business day, provided that the required currency conversion is carried out in the Member State outside the Euro area concerned<sup>272</sup>.

Based on the above, the following examples can be provided for a credit transfer made from Denmark to Belgium:

Payment order for a credit transfer placed by a payer in Denmark on a Friday at 19:00 to be sent to a beneficiary in Belgium	
SWIFT	Can be received by beneficiary as late as following Friday [7 calendar days] (provided that no public holidays in either Belgium or Denmark in the meantime)
SEPA regular credit transfer	Received by beneficiary by end of following Tuesday [3 calendar days*] (provided that no public holidays in either Belgium or Denmark in the meantime)
SEPA instant credit transfer	Received by beneficiary Friday at 19:01 [10 seconds] (even during holidays)

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<sup>272</sup> Article 82 and 83 of PSD2



## ANNEX 10: NETWORK EFFECTS IN PAYMENTS

Payments is a well-known example of a network industry. Such industries feature positive adoption externalities<sup>273</sup>, meaning that a participant joining the network brings benefits that accrue to other participants in the network. In other words, the value of a payment service to a payment service provider or payment service user increases with the number of other participating providers or users<sup>274</sup>. When these positive effects are not internalized<sup>275</sup>, market demand tends to be too low at any price, hence the equilibrium network size is smaller than the socially optimal network size, and even a perfectly competitive equilibrium is not efficient.<sup>276</sup> This market failure may result in a chicken-egg type of problem, where a better standard may fail to be implemented<sup>277</sup> due to the lack of willingness for any market participant to be the first to invest.<sup>278</sup>

One may differentiate between one-sided network markets, and two-sided network markets, or “platforms”. While one-sided markets have homogeneous users, two-sided markets feature two distinct customer groups that have inter-related demand by both customer groups imposing a positive externality on the other group<sup>279</sup>. The literature often defines such externalities between the two sides as “indirect network externality”<sup>280</sup>, in addition to “direct network externalities” that arise in one-sided network markets (e.g. telephones). A much-analysed two-sided market is that of payment cards, where the cardholder (consumer) is typically in the payer position, while the merchant is typically the payee. In the context of payment cards, an indirect network externality is driven by the fact that the more consumers have payment cards, the more

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<sup>273</sup> “There is strong empirical evidence that network externalities exist in payment instruments like ACH transfers, debit- and credit card payments and ATMs.” Payment Systems and Network Effects Adoption, Harmonization and Succession of Network Technologies in a Multi-country World, Johan Gottfried Leibbrandt, 2004. Gautam Gowrisankaran and Joanna Stavins also find significant evidence that the network externalities for payment systems are moderately large. Network Externalities and Technology Adoption: Lessons from Electronic Payments, Gautam Gowrisankaran, Joanna Stavins, The RAND Journal of Economics, Vol. 35, No. 2, p260-276, 2004. [Network Externalities and Technology Adoption: Lessons from Electronic Payments \(nyu.edu\)](#)

<sup>274</sup> Payment service users need an intermediary (a payment service provider) to be able to use the service (indirect link to other users). Therefore, it is first the service providers who need to join the platform (adoption or membership externality), while already considering the size of their own potential customer demand (and the customer base of other service providers that they expect to join) in their decision. Consequently, the service providers need to offer the new payment service to their customers (end users), and encourage its use.

<sup>275</sup> Social marginal benefits continue to exceed private marginal benefits.

<sup>276</sup> Even adoption externalities that are small at the individual level can lead to large social welfare losses. Systems Competition and Network Effects, Journal of Economic Perspectives—Volume 8, No. 2, p93-115, Michael L. Katz, Carl Shapiro, 1994, [Systems Competition and Network Effects \(aeaweb.org\)](#)

<sup>277</sup> Or implemented slowly.

<sup>278</sup> Product Introduction with Network Externalities, The Journal of Industrial Economics, Vol. 40, No. 1, p55-83, Michael L. Katz, Carl Shapiro, 1992, [Product Introduction with Network Externalities \(jstor.org\)](#) ECB Occasional Paper Series [Are instant payments becoming the new normal? A comparative study \(europa.eu\)](#), Monika Hartmann, Lola Hernandez-van Gijssel, Mirjam Plooi, Quentin Vandeweyer, 2019

<sup>279</sup> Examples are men and women for nightclubs, firms and workers for employment agencies, customers and suppliers for supermarkets, etc.

<sup>280</sup> Also called as cross-side network effects by some. [The Challenge of Two-Sided Markets in Merchant Payments \(cgap.org\)](#), 2019

retailers benefit from accepting them, and the more retailers accept payment cards, the more consumers benefit from them. The relative size of positive externalities and price sensitivities on the two sides might justify rebalancing mechanisms between the two sides in order to achieve a socially optimal network size<sup>281</sup>.

The payment industry exhibits significant economies of scale, for two reasons<sup>282</sup>. First, due to the network externalities described above, i.e. the value for an individual participant increases with the number of others using the system. Network effects may imply multiple demand levels for a given price, depending on users' expectations regarding network size<sup>283</sup>. Convergence to the high equilibrium depends on passing a given threshold. Once that threshold is crossed, demand will continue increasing in a self-reinforcing process that ends in the large-network equilibrium. This threshold level is usually referred to as the critical mass of buyers that leads to the build-up of the network<sup>284</sup>.

The second reason for the existence of considerable scale economies in payments is the relatively high level of fixed costs compared to variable costs. Building up new payment systems requires significant investment costs<sup>285</sup>. In such a situation with scale economies, the turnover of electronic payment methods must reach a critical level, where the unit costs are low enough to provide an opportunity to recover the sunk costs<sup>286</sup>. There are three components to this initial investment: (i) a common scheme, (ii) a common infrastructure<sup>287</sup>, and finally (iii) investments at the level of individual PSPs. One way to help overcoming the scale entry barriers is to separate the provision of services from the provision of physical infrastructures, which are often provided centrally<sup>288</sup>.

In the specific case of IPs, as regards the investment component (i) the EPC has already designed the SEPA Inst Scheme, while with respect to component (ii) the ECB has

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<sup>281</sup> For instance when only men pay entrance fee to nightclubs, or the interchange fee in payment card transactions which would act as a rebalancing mechanism between the issuing side and the acquiring side.

<sup>282</sup> The payment system, Payments, securities and derivatives, and the role of the Eurosystem, editor Tom Kakkola, ECB, 2010, [THE PAYMENT SYSTEM - PAYMENTS, SECURITIES AND DERIVATIVES, AND THE ROLE OF THE EUROSISTEM. EDITOR TOM KOKKOLA, SEPTEMBER 2010 \(europa.eu\)](#)

<sup>283</sup> Introduction to Industrial Organization, Luis M. B. Cabral, The MIT Press, 2002

<sup>284</sup> Payment Systems and Network Effects Adoption, Harmonization and Succession of Network Technologies in a Multi-country World, Johan Gottfried Leibbrandt, 2004

<sup>285</sup> Macroeconomic effects of the increase of electronic retail payments – A general equilibrium approach using Hungarian data. Financial and Economic Review, Vol. 15 Issue 2., p 129–152, Ilyés T. – Varga L., 2016

<sup>286</sup> The existence of fixed costs imply that the average cost of a payment declines with the number of payments processed, in other words, as volumes increase, the marginal cost of transactions falls. [Fast payments - Enhancing the speed and availability of retail payments \(bis.org\), 2016](#)

<sup>287</sup> "As argued by Milne, a shared payment infrastructure is a public good from the point of view of an individual bank, which may without public intervention lead to under-provisioning."

ECB Occasional Paper Series [Are instant payments becoming the new normal? A comparative study \(europa.eu\)](#), Monika Hartmann, Lola Hernandez-van Gijssel, Mirjam Plooi, Quentin Vandeweyer, 2019 referring to 0020What is in it for us? Network effects and bank payment innovation, Journal of Banking & Finance, 30, p1613-1630, Alistair Milne, 2006

<sup>288</sup> The payment system, Payments, securities and derivatives, and the role of the Eurosystem, editor Tom Kakkola, ECB, 2010, [THE PAYMENT SYSTEM - PAYMENTS, SECURITIES AND DERIVATIVES, AND THE ROLE OF THE EUROSISTEM. EDITOR TOM KOKKOLA, SEPTEMBER 2010 \(europa.eu\)](#)

already created a pan-European clearing and settlement infrastructure TIPS<sup>289</sup>, plus ensured the interconnection of national (and cross-border) clearing and settlement infrastructures (see Annex 6). Therefore, the necessary fixed investment cost for offering IPs is now limited to the PSPs' individual investments (component (iii)).

In order to overcome the market failure (due to the network characteristics, aggravated by the economies of scale in payments) to achieve a socially optimal network size, the literature recognises the importance of coordinated efforts, either on the basis of industry collaboration and/or by some sort of government intervention (e.g. the importance of the role of central banks as initiators, coordinators and catalysts).<sup>290</sup>

The most important benefit of such coordination is reducing the uncertainty about whether and when other PSPs will make the necessary investments.<sup>291</sup> There are examples of both market-led and publicly organized coordination in the area of payments. In several countries<sup>292</sup>, the banking sector decided to actively coordinate the implementation of IPs (such as in the markets of Spain, Belgium and Sweden – see Section 2.3.1).

As regards public intervention, the completion of the SEPA area (for regular credit transfers and direct debits) required EU regulatory intervention to phase-in EU SEPA standards and phase-out national legacy corresponding standards, as self-regulation forces alone had not managed to reach this objective within a reasonable end-date. In Hungary, the central bank MNB decided to regulate the implementation of domestic currency IPs by making adherence mandatory “in order to move the whole domestic payments market into a more optimal point from a social point of view”<sup>293</sup>. Involvement of central banks in promoting the roll-out of IPs in national markets was observed also in other Member States (e.g., the Netherlands, Lithuania).

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<sup>289</sup> On top of various – mostly national – Automated Clearing Houses.

<sup>290</sup> [Fast payments - Enhancing the speed and availability of retail payments \(bis.org\), 2016](#)

Instant payments in Hungary – Central Bank's role in the development, László Kajdi, Kristóf Takács, Lóránt Varga, 2019

[https://www.ecb.europa.eu/pub/conferences/shared/pdf/20191126\\_payments\\_conference/academic\\_p\\_aper\\_kajdi.pdf](https://www.ecb.europa.eu/pub/conferences/shared/pdf/20191126_payments_conference/academic_p_aper_kajdi.pdf)

ECB Occasional Paper Series [Are instant payments becoming the new normal? A comparative study \(europa.eu\)](#), Monika Hartmann, Lola Hernandez-van Gijssel, Mirjam Plooi, Quentin Vandeweyer, 2019  
Network Externalities and Technology Adoption: Lessons from Electronic Payments, Gautam Gowrisankaran, Joanna Stavins, The RAND Journal of Economics, Vol. 35, No. 2, p260-276, 2004, [Network Externalities and Technology Adoption: Lessons from Electronic Payments \(nyu.edu\)](#)

<sup>291</sup> In other words, it changes the users' expectations regarding the network side. [Fast payments - Enhancing the speed and availability of retail payments \(bis.org\), 2016](#)

<sup>292</sup> Differences in local coordination efforts, but also some other market features, such as payment habits, business culture, industry structure, etc may all influence the adoption levels, and can explain the apparent differences in the adoption levels across Member States.

<sup>293</sup> Instant payments in Hungary – Central Bank's role in the development, László Kajdi, Kristóf Takács, Lóránt Varga, 2019

[https://www.ecb.europa.eu/pub/conferences/shared/pdf/20191126\\_payments\\_conference/academic\\_p\\_aper\\_kajdi.pdf](https://www.ecb.europa.eu/pub/conferences/shared/pdf/20191126_payments_conference/academic_p_aper_kajdi.pdf)

Finally, it is important to note that as the large majority of retail credit transfers (and other retail payments) in the EU is domestic, PSPs are mostly focusing on the domestic situation when evaluating their future investments. Hence, the SEPA objective of creating a true European payments area that strengthens the internal market by covering not only domestic, but also cross-border payments, would require that the market failures are addressed in all Member States in parallel, i.e. by efforts at the European level.