Open Forum on Pan-European Instant Payments

Milan

7\textsuperscript{th} June 2016
Welcome

Wolfgang Ehrmann
Chairman
Euro Banking Association
Introduction

Hansjörg Nymphius
Advisor to the Board
Euro Banking Association
1. Welcome by EBA Chairman  
Wolfgang Ehrmann, Chairman, Euro Banking Association

2. Introduction by the Open Forum Coordinator  
Hansjörg Nymphius, Advisor to the Board, Euro Banking Association

3. SCT Inst Scheme: key considerations and current status of consultation phase  
Javier Santamaría, Chair, European Payments Council

4. Success factors for instant payments for merchants  
Christian Fink, Chairman instant payment working group, BITKOM

5. Potential adoption scenarios and volume estimates of instant payments  
Nick Senechal, Strategy Lead, VocaLink
6. **Panel discussion: Making instant payments across Europe a reality in 2017 – are we well-prepared?**

*Moderator:* Hansjörg Nymphius, Advisor to the Board, Euro Banking Association

*Panellists:* Christian Fink, Chairman instant payment working group, BITKOM  
Javier Santamaría, Chair, European Payments Council  
Nick Senechal, Strategy Lead, VocaLink

7. **Closing remarks**

Hansjörg Nymphius, Advisor to the Board, Euro Banking Association
SCT Inst Scheme: key considerations and current status of consultation phase

Javier Santamaría
Chair
European Payments Council
Towards Instant Payments

Open Forum on Pan-European Instant Payments

7 June 2016
SCT Instant Scheme

- Conceptual overview

**Out of scope of SCT Inst scheme**

- **Beneficiary account servicing**
- **PSP**

**Originator**

1. IP Order
2. SCT Inst message
3. SCT Inst message
4. Confirmation message if SCT Inst was successful or not
5. Confirmation message if SCT Inst was successful or not
6. Settlement mechanism

- **Makes funds immediately available**

**Clearing mechanism**

- Out of scope of SCT Inst scheme
Key Features

- A **separate** and new Instant SEPA Credit Transfer scheme in euro
- Scheme participation: an **optional** SCT scheme
  - if an AS PSP adheres, it has to be at least **reachable** in the role of Beneficiary AS PSP
  - if Beneficiary AS PSP is not reachable, the initiated SCT Inst transaction is not possible and it will be rejected
- **Exact starting point** of SCT Inst transaction
  - from the moment the Originator AS PSP “accepts” the IP order from the Originator (step (1))
- **Re-use** of elements from the SCT Rulebook and Implementation Guidelines as much as possible in order to facilitate development and take-up
- Use of **IBAN and BIC** in the inter-AS PSP domain
- Same geographical scope as the existing SEPA Schemes (**34 countries**)
Key differences with current SCT Scheme

- Funds to be **immediately made available** to the Beneficiary
- All messages from step (1) to step (4) (2) included to be exchanged within a **maximum number of seconds**
- The Originator AS PSP will be **obliged to settle** a successfully completed SCT Inst transaction to guarantee settlement certainty for the Beneficiary AS PSP
- Use of specific positive and negative confirmation messages **mandatory between AS PSPs**
- Mandatory **negative confirmation message** from the Originator AS PSP to the Originator
- The use of a **maximum amount** limit in the first release of the SCT Inst Scheme rulebook
Key considerations

- Risk management
  - The Beneficiary AS PSP needs settlement certainty to make the SCT Inst scheme work
  - Instant payments have a specific risk profile - risk assessment and mitigation
- Mandatory minimum performance requirements for an SCT Inst scheme participant
  - Ensure 24/7/365 end-to-end availability and business continuity capability
  - Select clearing and settlement mechanisms that are able to support SCT Inst transactions
  - All SCT Inst messages to be exchanged within a maximum number of seconds
Number of seconds

- Target: 10 seconds
- Time-out: 20 seconds (+ 5 seconds)
- Background is SEPA including cross-border transactions – more complex ecosystem than a purely local environment
- Scheme participants (e.g. at country level) can agree on a lower target than 10”
- Beneficiary PSP to send a positive or negative confirmation message
- What if the Originator PSP has received no confirmation message after 25 seconds?
  - “no news is good news”
  - optional investigation message with mandatory response
- “European compromise”
- These parameters can be reassessed in future
Maximum amount

- Maximum scheme default amount
- €15,000 per transaction to start with
- Scheme participants (e.g. at country level) can agree on a higher maximum amount
- Originator PSP can apply lower amounts based on its own risk management policies or agreements with its customers
- "European compromise"
- This scheme default maximum amount will be periodically reviewed in future as from November 2018
Development and implementation

- No specific use cases targeted by the new scheme
- Scheme is “agnostic” towards initiation and clearing and settlement
- Ongoing stakeholder involvement
- Timely availability of ISO 20022 real time payment messages
- Draft Rulebook released for a 3-month public consultation starting on 12 April 2016 and closing on 10 July 2016
- Publication of final Rulebook and Implementation Guidelines in November 2016
- SCT Instant scheme operational in November 2017
- Successful when critical mass
THANK YOU !
Success factors for instant payments for merchants

Christian Fink
Chairman instant payment working group
BITKOM
Working Group „SEPA, Instant Payments & Crypto Currencies“

Success factors for instant payments @ merchants

Milan, June 2016
Merchants within the instant payments stakeholder world

| INFLUENCER | 
| --- | --- |
| **Supervision** | **Regulation** | **Central Banks** | **Assoc., Commun.** |
| • Authority: EBA, Bafin | • Governments | • ECB, Bundesbank | • Europ. Payments Council |
| • Rule: ZAG / PSD II | • EU-Commission | • Other ESCB – Banks | • Euro Banking Association |
| | | (€ and non-€) | • €-Retail Payments Board |

| SUPPLY | 
| --- | --- |
| Payment Hardware Provider | Infrastructure Solution Provider |
| Payment System Provider | Payment Vehicle Provider |

| DEMAND | 
| --- | --- |
| Consumer | Merchants |
| Manufacturer | Telco/Media |
| Transportation | Government |

| TRANSFORMERS | 
| --- | --- |
| Financial Institutions | 

| COMPETITORS / NEW ENTRANTS / SUBSTITUTES | 
| --- | --- |
| Mobile Network Operators | E-Money Institutes |
| Instant Payment Country Solutions | Account Information/ Change Provider |
| | Distributed Ledger Provider |
| | Closed Loop Paym. Networks & eCom. payment provider |
Stakeholder workshop series for requirements discussion

Excerpt of in total more than 40 participating companies and associations representing different instant payments stakeholder groups:

<table>
<thead>
<tr>
<th>Financial Institutions</th>
<th>Merchants, Government et.al.</th>
<th>Provider</th>
<th>Associations, Academia et. al.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allianz</td>
<td>Aldi</td>
<td>GS1</td>
<td>bitkom</td>
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<td>BMW Financial Services</td>
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<td>Germany</td>
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<td>COMMERZBANK</td>
<td>Metro</td>
<td>NTT Data</td>
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<td>Deutsche Bank</td>
<td>OBI</td>
<td>paydirekt</td>
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<td>DZ BANK</td>
<td>REWE Systems</td>
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<td>HypoVereinsbank</td>
<td>Thalia.de</td>
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<td>ING DiBa</td>
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<td>SOCIETE GENERALE</td>
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### Results of our workshops

#### Key Findings concerning Instant Payments at POS:

- **Fast execution is the first priority**
- **POS process is of high importance**
- **Retail Market oder Merchants want to keep ownership of processes**
- **Issue customer-device: is not within the ownership of retail market**
- **Increased communication efforts at POS to be avoided**
- **A big number of payment options initiate longer processing times (communication, response times, higher default risk, …)**
- **Retail Market always invest in optimizing processing times**
- **Benchmark: the entire payment process: 15-20 sec**
- **Time frame authorisation request/response: 2-3 sec**
Requirements from Merchants

New Payment Instruments will be successful if:

1. They give the possibility of fast end-to-end execution
2. They are desired and accepted by the customer (security, easy handling, additional benefits, applicable at all times: P2P, small amounts, wide-coverage)
3. They are compliance with competition law (interchange, organization structure / possibilities for participation)
4. They use of state-of-the-art technology (open standards, processing speed)
5. They are multichannel-ready
6. They strengthen the merchants position, protect the data ownership
7. They are failsafe
Instant Payments at the POS

Selection of Instant Payments as payment method

Transfer of Payments Data

Payer \[\rightarrow\] Payee

PSP = Bank A

PSP = Bank B

Messaging

Settlement
Instant Payments at the POS

Creating the Payment Order
Request for Authorization
Authorization
Payer

PSP = Bank A

PSP = Bank B

Settlement

Messaging

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IO1
IO2

Payee

IO1
IO2

June 2016 /23
Instant Payments at the POS

Settlement

Sending the Instant Payment to the Bank of the Payee

Sending a Confirmation to the CSM

Notice of Payment Arrival

PSP = Bank A

PSP = Bank B

Payer

Payee
Instant Payments at the POS

Settlement

PSP = Bank A

PSP = Bank B

Payment Confirmation

Purchase Confirmation

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Instant Payments at the POS

The payment procedure at the POS has to be executed very fast. From the merchants' point of view, the maximum processing time for the steps I15, C-1, C-2 and R can be no longer than two seconds.

(pan-European) standards for the steps I01 and I02 are required in order to make sure that one app can be used anywhere for payments. The definition could be made by the merchants side.

From the view of the customer it must be possible to make a payment at the POS that is anonymous to the merchant.

PSP = Bank A

PSP = Bank B
The checkout procedure at the POS consists of the following steps:

1) redeeming of merchants coupons
2) redeeming of brands coupons
3) redeeming of loyalty points
4) redeeming of deposit receipts (empties)
5) payment
6) dispensing of loyalty points
7) dispensing of an electronic receipt

Data is generated during the execution of functions 1 to 7.
• Who is the owner of this data?
• Where is the data stored?

Will the payment function be integrated into the merchant app or will the merchants functions be integrated into the banking app?
Thank you for your attention!

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Chairmen of the working group „SEPA, Instant Payments & Crypto Currencies“ of Bitkom e.V.
I01: The customer chooses instant payment as payment instrument
I02: The merchant (Payee) transfers the payment details
   - Account Number
   - Amount
   - Instruction-ID
   - End-to-End ID
   - Remittance Information
   - and additional data (e.g. for the electronic bill or the electronic invoice)
   to the banking App of the customer (payer), which is provided from a PISP or from the bank of the customer (Bank A)
   - the transfer happens via mobile phone through NFC, QR-Code or Bar-Code
I11: The Banking-App creates the order for the execution of an instant payment with the merchants parameters and confirms the order.
I12: Bank A requests the authorization data from the customer.
I15: The customer authorizes the order e.g. via fingerprint.
C-1: Bank A sends the Instant Payment to the CSM.
C-2: The CSM executes various validation checks if the clearing can take place. If this is the case, the instant payment will be transmitted to Bank B.
C-3: Bank B checks if the instant payment can be accepted and forwards the result of the checks to CSM. The amount is made available to the payee, if bank B accepts the instant payment.
R: Bank B actively or passively informs the payee that the amount is free for disposal
C-4: The results of the checks are forwarded to bank A.
I20: The merchant confirms the purchase to the customer.
I18: Bank A confirms the receipt or the refusal of the order to the customer.
S: The amount is transferred from bank A to bank B (settlement)
Potential adoption scenarios and volume estimates of instant payments

Nick Senechal
Strategy Lead
VocaLink
Instant Payments

Engaging with the new beast
Instant Payments will dominate the Euro payments landscape

Transactions (millions) – base case

Source of volumes
- New
- Debit Card
- SDD
- SCT

Source: Vocalink analysis, based on ECB, NCB and commercial sources

www.vocalink.com
Why Instant Payments will be adopted widely

Uniqueness and utility: Does IP offer anything new or attractive?
Instant transfer, 24 X 7, instant certainty

Flexibility: How well does IP support a range of uses?
Not restricted to low values; simple/atomic process; symmetric; layered design

Universality, reach: How soon will IP gain critical mass?
Early hotspots, growth through standards/interoperability

Regulation: Will regulation drive the pace of adoption?
Regulatory ambition, no mandate as yet; support with interoperability and settlement; PSD2 Indirect Impact

Economic model: Will IP drive revenue?
Market opportunity for B2B, B2C, C2B services with revenue potential for PSPs

Technology availability: Is the technology ready?
Several proven (inter)bank solutions

www.vocalink.com
Experience indicates a “natural” phasing of adoption

### Phase 1 Introduction
- Retail customers benefit from the core service
- Early SCT migration

### Phase 2: Exploitation
- New volumes from innovative services
- Continued SCT migration
- Some SDD substitution

### Phase 3: Maturity
- Majority migration of SCT and SDD to IP
- Re-platforming/outsourcing of remaining SCT/SDD

#### Person to Person
- Basic access through bank e and m channels

#### Person to Business/Business to Person
- Simple overlay services, consumer apps, corporate bulk input

#### Business to Business
- Complex overlay services, corporate process integration

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SCT<sup>INST</sup>

Instant SDD
More active promotion can potentially re-shape adoption to bring earlier benefits

<table>
<thead>
<tr>
<th>Phase 1 introduction</th>
<th>Phase 2: Exploitation</th>
<th>Phase 3: Maturity</th>
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<td></td>
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<td>Global interoperability</td>
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<td>Pan-euro interoperability</td>
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<tr>
<td>Early Promotion of business-related use cases will improve business case</td>
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<td>Business to Business</td>
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<td>Person to Business/ Business to Person</td>
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<td>Person to Person</td>
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<tr>
<td>Initial consumer e &amp; m commerce, P2P services</td>
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<td>Many retail overlays, sector-specific services, initial B2B overlays</td>
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<td>Complex overlay services, corporate process integration</td>
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SCT^{INST}  

Instant SDD
## Key recommendations

| Embrace SCTinst | SCTinst will become a reality;  
|                | • plan adoption |
| Deliver an ‘always on’ real time and scalable infrastructure | Reliability, availability and scalability are required for the Instant Proposition;  
|                | • avoid compromise |
| Focus from the onset on developing B2C, B2B use cases with key stakeholders | In most communities P2P Instant Payments use cases will not deliver the business case, but P2B and B2B will;  
|                | • Collaborate to address customer needs |
| Guide convergence | Optimise the economic model by:  
|                | • development of complementary services;  
|                | • promotion to revenue earning business sectors; and  
|                | • optimising processing of remaining non-instant volumes, (align, outsource) |

www.vocalink.com
Panel discussion: Making instant payments across Europe a reality in 2017 – are we well-prepared?

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Panellists:
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Javier Santamaría, Chair, European Payments Council
Nick Senechal, Strategy Lead, VocaLink
Closing remarks

Hansjörg Nymphius
Advisor to the Board
Euro Banking Association
For any comments or questions, please contact us at instant_payment_forum@abe-eba.eu