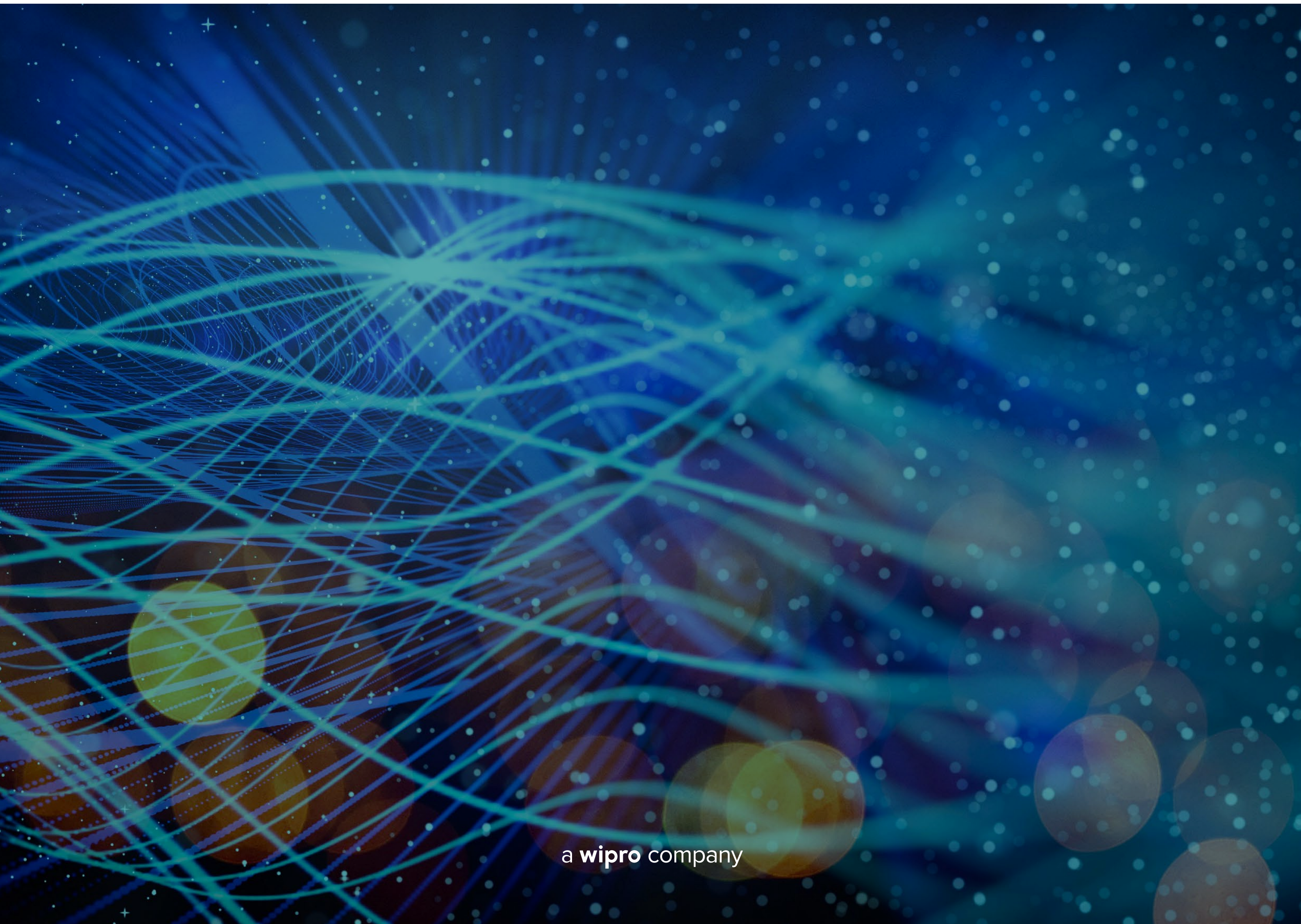
CAPCO

SEPA INSTANT PAYMENTS

NEW NORM FROM 2025



Instant Payments (IP) are set to become the 'new normal' with the EU Parliament's decision to require payment service providers (PSPs) that currently offer SEPA (Single Euro Payments Area) credit transfers to also offer SEPA instant credit transfers to their customers at the same price. Banks must assess and ensure compliance within a short timeframe.

BOOSTING THE UPTAKE OF INSTANT PAYMENTS

SEPA instant payments were introduced in 2017, to allow the transfer of money between accounts in Europe (up to 100,000 EUR) in less than 10 seconds, 24/7/365. This marked a further step in the European payments integration and was intended to potentially bring a paradigm shift to the region's payments habits: Instant payments were expected to become the new normal.

Now in Q1 2024, despite the relatively good coverage, with 71% PSPs in the euro area offering instant payments, the share of instant payment transactions in all SEPA payments has reached only 17%.[1] This has led to a regulatory intervention to introduce new measures to facilitate further adoption of instant payments.

The low penetration of instant payments can be attributed to factors such as heterogeneous and prohibitive pricing policies, a lack of demand from customers, and difficulties in identifying business relevant use-cases.

Furthermore, there are cost and complexity considerations for PSPs such as the need for a costly IT Infrastructure, real-time embargo/sanctions screening and liquidity management, which prevent PSPs from offering instant payments.

To address the above pain points, the EU parliament has decided to make instant payments more customer friendly and mandatory.

INSTANT PAYMENTS REGULATION

In March 2024, the EU parliament released a new Regulation (EU) 2024/886 to amend Regulations (EU) No 260/2012 and (EU) 2021/1230 and Directives 98/26/EC and (EU) 2015/2366 with regard to instant credit transfers in euro.

Currently, SEPA instant payments enable customers to transfer up to 100,000 euro within 10 seconds, at any time of the day to any SEPA instant participant PSP.

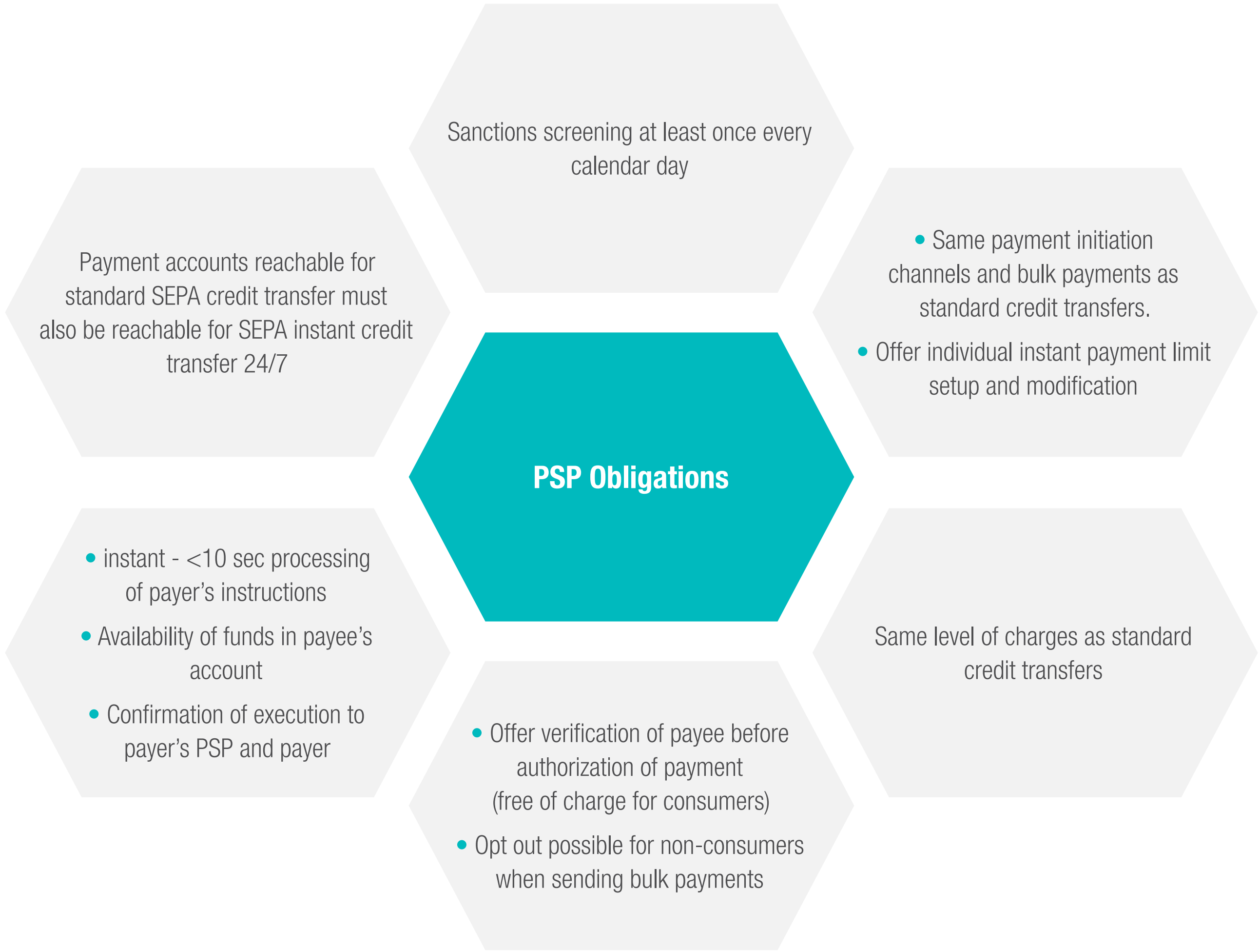
1. https://www.europeanpaymentscouncil.eu/what-we-do/sepa-instant-credit-transfer

With the updated regulation, PSPs will be expected to implement instant payments in a short timeframe or adjust the implementation of existing instant payments infrastructures as follows:

- All PSPs offering SEPA payments will be mandated to offer SEPA instant payments.
- Charges applied by a PSPs in respect to instant credit transfer transactions in euro cannot be higher than the charges applied to non-instant credit transfer transactions in euro.
- All PSPs in the eurozone will be required:
    - To enable their clients to receive SEPA instant payments by **09 Jan 2025**.
    - To enable their clients to send SEPA instant payments by **09 Oct 2025**.
- Sanction screening, on the other hand, will change from a requirement to check against embargo list on a per-transaction basis to a daily check of the customer base or when there is any change in embargo list. The per-transaction check shall not be necessary; this is intended to relieve sanction screening processes.
- Under the new rules, instant payment providers will need to verify that the beneficiary's IBAN and name match and to alert the payer to possible mistakes or fraud before a transaction is made. This requirement will apply to regular SEPA transfers too. The exact validation protocol and rulebook are expected to be published in September 2024, as currently there are different regulations in place for different countries.
- PSPs will be required to allow their customers to set a separate limit for SEPA instant credit transfers from their standard credit transfer limit, up to the current SEPA instant payment maximum of 100,000 euro per transaction.
- An additional critical aspect of the regulation is the implementation timeline. Adhering to these compliance obligations within the stipulated time frame is essential to avoid penalties:

Category of PSP	Type of service	Implementation deadline
Eurozone-based PSPs other than EMIs and PIs*	Receiving instant credit transfers	9 January 2025
	Sending instant credit transfers	9 October 2025
Eurozone-based EMIs and PIs	Receiving and sending instant credit transfers	9 April 2027
	Receiving instant credit transfers	9 January 2027
Non-eurozone-based PSPs other than EMIs and PIs	Sending instant credit transfers	9 July 2027
Non-eurozone-based EMIs and PIs	Receiving instant credit transfers	9 April 2027
	Sending instant credit transfers	9 July 2027

*Electronic money institutions (EMIs) as defined in Article 2, point (1), of Directive 2009/110/EC and payment institutions (PIs) as defined in Article 4, point (4), of Directive (EU) 2015/2366

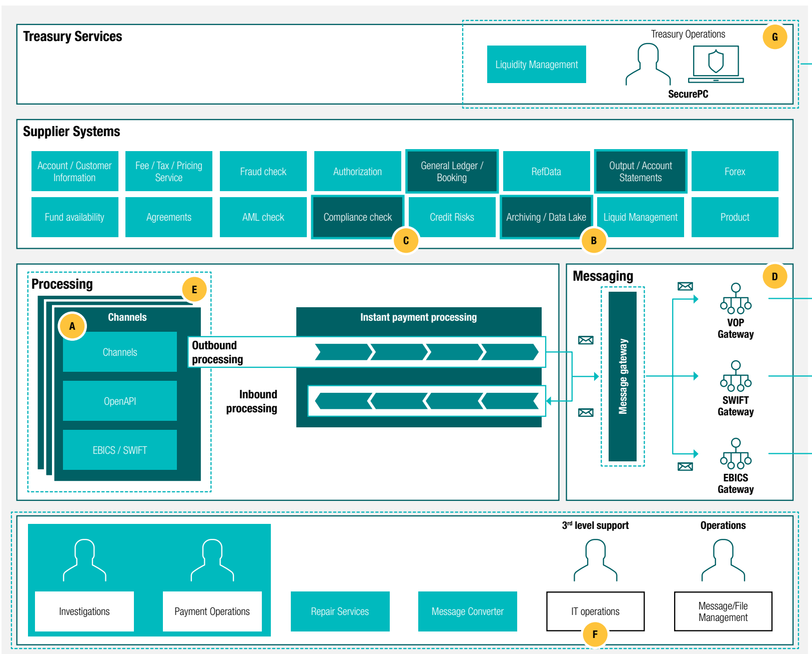


CHALLENGES AND BARRIERS FOR PSPS IN THE ADOPTION OF INSTANT PAYMENTS

Implementing instant payment capabilities is not an easy task. In addition to supporting messaging formats, PSPs must ensure that their end-to-end payments architecture is real-time enabled and their operating model can support 24/7 payment operations.

In our previous projects, we have identified five major areas of impact during the implementation of instant payments: IT landscape, product, compliance and operations.

Illustration of Functional View



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Intervention Areas

A **Channels:** below10-seconds processing and 24/7/365 availability of instant payments

B **Supplier systems:** Enhanced liquidity management requirements

C **Compliance:** Performance / availability for daily sanction screening

D **Messaging:** Additional message gateway for validation of payee

E **Processing:** Impact on all systems in payment chain including stand-in solutions for bookings, limit management, payee validation

F **Operations:** 24/7/365 operations and extended customer support

G **Treasury Services:** New alerting function for liquidity management

1. In terms of IT landscape, we find that common difficulties arise due to the use of legacy systems and communication formats. Such infrastructures often don't support 24/7 system availability necessary for instant payment and verification of payee operations. A thorough analysis of the current system architecture and infrastructure is recommended, along with modifications to service level agreements (24/7 availability, KPIs, monitoring, alerting), and a review of the inter-system communication between messaging, compliance, payments, booking and output applications.

2. Instant payments implementation will bring new challenges to the client and channels sphere. It will be mandatory to offer instant payments via all channels (e.g. mobile, web, branch) where client is offered regular SEPA payments, and there should be the option for clients to set a separate limit for instant payment transactions.

3. Institutions will need to implement new services for verification of payees, both from the payer and payee banks' perspectives. The payer's bank must develop capabilities to send requests for the payee's name verification to the payee's bank, and the payee's bank will need to check the name of the payee against their records and respond back to the payer's bank with Match / No Match / Partial Match (along with the name of the payee). This necessitates an IT solution at both ends of the payment process. This service must be available 24/7/365 not only for SCT Inst, but also for regular SEPA transfers.

4. Previously PSPs experienced challenges while processing instant payments because embargo screening was required to be done on a per-transaction basis, which required banks to have real-time sanctions screening capabilities. With the new adaptations of instant payment regulation, this is no longer necessary.

   However, the new rules will demand daily screening (as a minimum) of banks' client base against sanction lists. Banks will need to build processes around daily checks, whitelisting and quarantining clients in case of name-match and dealing with false and true positive name matches. 24/7 instant payments also trigger new cyber and fraud risks due to changing customer behaviors and increased transaction velocity (e.g. transactions on weekend).

5. Operationally, enhanced liquidity management is required to facilitate the gross-settlement proposition of instant payments. Additionally, operational fallback options and analysis of exception-processes need to be evaluated while preparing for instant payments implementation.

CONCLUSION & HOW CAPCO CAN HELP

The EU's move to accelerate the adoption of instant payments in euro puts pressure on banks that haven't yet implemented instant payments to assess their readiness to comply and prepare for the imminent implementation.

The regulation further requires banks that have already implemented instant payments to re-evaluate their implementations and make changes to include the verification of payee and modifications to the sanctions screening process.

At Capco we draw on our extensive experience of systems and regulatory updates and implementations, combined with our broad pool of subject matter experts, to quickly assess the steps necessary for timely compliance.

Contact us to find how we can help you progress with instant payments implementation or update, avoiding the usual pitfalls that impact the different areas of a bank's infrastructure – IT landscape, compliance, product and operations.

References: https://eur-lex.europa.eu/eli/reg/2024/886/oj

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ABOUT CAPCO

Capco, a Wipro company, is a global technology and management consultancy focused in the financial services industry. Capco operates at the intersection of business and technology by combining innovative thinking with unrivalled industry knowledge to fast-track digital initiatives for banking and payments, capital markets, wealth and asset management, insurance, and the energy sector. Capco's cutting-edge ingenuity is brought to life through its award-winning Be Yourself At Work culture and diverse talent.

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