Brussels, 23 June 2021
MvB/AJG

EACB Answer

to

Public consultation on instant payments

June 2021

The **European Association of Co-operative Banks** (EACB) is the voice of the co-operative banks in Europe. It represents, promotes and defends the common interests of its 28 member institutions and of co-operative banks in general. Co-operative banks form decentralised networks which are subject to banking as well as co-operative legislation. Democracy, transparency and proximity are the three key characteristics of the co-operative banks' business model. With 4,050 locally operating banks and 58,000 outlets co-operative banks are widely represented throughout the enlarged European Union, playing a major role in the financial and economic system. They have a long tradition in serving 214 million customers, mainly consumers, retailers and communities. The co-operative banks in Europe represent 85 million members and 749,000 employees and have a total average market share of about 20%.

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Introduction

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Payment Service Provider (PSP) perspective

Question 15. If you are a PSP providing and maintaining payment accounts for payers, have you adhered to an instant credit transfer scheme:

	Yes	No	I don't know	Not Applicable
To the SCT Inst. Scheme				
To another scheme (for instant credit transfers in an EU currency other than euro)				

Please explain your answers to question 15:

5000 character(s) maximum including spaces and line breaks.

Market adoption of SCT Inst has progressed well in terms of technical and process development. In terms of adherence to the SCT Inst scheme, as of June 2021, the scheme included 2,326 payment service providers from 23 countries in Europe (59% of the total number of participants (i.e. 3961) in **all** SEPA countries, 65% in the EU only and 69% in the euro area). The volume of transactions in the first quarter of 2021 represented 8,57% of the total volume of SCT and SCT Inst transactions in SEPA (compared to 5.92% in the first quarter of 2020). The actual scheme's penetration is, however, much higher when measured in terms of reachable payment accounts with a vast majority of payment accounts being already reachable for SCT Inst in 12 euro area countries.[1] This is a more meaningful criterion from a user or market perspective. By comparison, it took 6.5 years to complete the migration to SCT in the euro area and over 8.5 years outside the euro area.

It has always been anticipated that SCT Inst would be implemented across SEPA in a progressive manner. PSPs must be given a sufficiently lengthy rollout period due to technical implementation and customer considerations.

We call upon EU banks to adhere on a voluntary basis to the SCT Inst scheme, which forms one of the major building blocks of a future pan-European solution. We do not see any need for further legal intervention in this area or regulation of fee levels, in particular it would be an unjustified intervention into the price building mechanisms of the market.

The Commission should also carefully consider the needs and costs of SCT Inst for non-eurozone markets and PSPs. Moreover, it is important to take into consideration that some PSPs have very specific or 'niche' customers who do not need instant payments and therefore it would not be proportionate to mandate these PSPs to adhere to SCT Inst. In this context, a mandatory participation by all types of banks, especially smaller

[1] Austria, Belgium, Estonia, Finland, France, Germany, Italy, Latvia, Lithuania, the Netherlands, Portugal and Spain.

or highly specialised institutions that do not offer electronic payment accounts for customers, continues to be inappropriate.

We would therefore request the Commission to very carefully consider any further actions, if any, in this field. A general market-driven approach should be the preferred way forward.

Question 16. What benefits do you see, as PSP, in offering instant credit transfers? Please rate the importance of the benefits listed below:

	1 (unimportant)	**2** (rather not important)	**3** (neutral)	**4** (rather important)	**5** (fully important)	**N.A.**
New source of revenue				X		
Attract a larger customer base				X		
Preserve the existing customer base				X		
Save costs in other areas of operations (e.g. cash management and distribution, ATM maintenance, security costs)						x
Ability to (cross) sell other services				X		
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			X			
Other						

Please explain your answers to question 16:

5000 character(s) maximum including spaces and line breaks.

We support efforts to increase the uptake of SCT Inst and support the view that SCT Inst could facilitate stronger and more integrated homegrown pan-European payment solutions. Market adaption of SCT Inst has progressed well in terms of technical and process development.

Instant payments will enlarge the choice of payments instruments for users, in particular for consumers. Hence, we consider instant payments as an enrichment and an investment in the future and not as a replacement of existing "traditional" payment

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instruments (e.g. regular credit transfer or direct debit). Especially, due to their special needs, many different customers still need and will need in the future the existing "standard / traditional" credit transfer (SCT). SCT-Inst Scheme cannot be a solution for all relevant payment needs and could not provide all functions that well established payment schemes/methods like "SCT" (classic) and / or "SDD" do. Instant payments should not be seen as a solution for all relevant payment needs and as a replacement for well-established payment solutions. The market needs a well-balanced payment mix, covering all needs and the different customer behaviours. Customers and the market environment have "indicated" possible demand for different use cases but not all in all. Hence, customers should have a choice and also every individual bank should be able to decide freely whether to offer this product "actively".

Pan-European instant payments can contribute to achieving a more integrated Single Market in retail payments. For this to fully materialize, European market actors should be able to launch pan-European solutions that can compete successfully with non-European providers, in particular incumbent card schemes and Big Techs.

It is of utmost importance that the EU Commission clarifies as soon as possible its overall vision of a future EU payments landscape including both broadly used instant credit transfers and a Digital Euro. For the instant payments to be used broadly, not only PSP but also merchants will have to invest. At the same time Digital Euro could displace the benefits of instant payments entirely and multiply the investment required.

Although instant payments can be used in many use cases, they will mainly compete with card-based payments, a long-standing payment instrument with different features offered by several schemes, leveraging a highly expanded acceptance network and with proved business models. The challenges of creating instant payment-based solutions that can compete should not be underestimated. Therefore, it is crucial that the right incentives are in place to make instant payments competitive over time vis-à-vis other payment means, in particular:

o Allow the possibility of charging merchants and/or payment users for the provision of instant payments, depending on the relevant business model.
o Leave to the market the level of fees that can be charged because this would promote competition in the market. Regulating the level of fees risks introducing inadequate incentives for competition and innovation and biases in favour of certain payment instruments to the detriment of others.
o Solutions to deal with fraud and consumer protection should be market-driven.
o Regulatory stability over time regarding payment-related topics is essential, in particular during the period required to consolidate the emergence of pan-European instant payment schemes.

Question 17. In your opinion, could instant credit transfers aggravate bank runs and thus contribute to bank failures?

	Yes
x	No
	Don't know / no opinion / not relevant

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Please explain your answers to question 17:

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Due to the existing SCT Inst scheme's conditions and limitations, we do not see a potential risk of "aggravating bank runs". We refer to the SCT Inst scheme's maximum transaction amount of 100,000 EUR (as of 1 July 2020) and the pre-funding settlement model adopted for SCT Inst across Europe. In addition, SCT Inst scheme participants generally apply limits (e.g., an aggregated daily value limit and/or an individual transaction value limit) for their customers making SCT Inst transactions. Such limits can be adapted very fast to react to exceptional situations. This is in a way similar to the management of daily ATM withdrawal limits. These limitations are set for several reasons including to protect their customers in case of fraud. Furthermore, stopgap mechanisms which can freeze or exclude a participant or to freeze the whole activity already exist at CSM level, and are not limited to the SCT Inst. We are of the opinion that such stopgap mechanisms should be handled at PSP and CSM level and do not request further actions by the authorities. However, when promoting further use of instant payments, it is important to ensure that instant payment solutions – whether facilitated by ACHs or through TIPS – have adequate features to ensure robust, reliable, and flexible liquidity management during e.g., weekends and bank holidays when central bank RTGS-system are closed. Such a setup should ensure that customers will not experience unexpected interruption of instant payments, as well as ensuring that clearing participants receives warnings if transaction volumes and liquidity needs are different than expected. This way the clearing participant will be able to allocate more liquidity if needed or otherwise stop liquidity outflow if a bank run is occurring. Having said that, it is still important that all instant payments are settled in central bank money, and there is no credit risk between the clearing participants. For legal certainty, there is a need for clarity that civil law execution obligations for special situations are superimposed.

Technical standardisation

Question 18. In your view, should a single European QR code standard for instant credit transfers be available?

	Yes, it should be developed by market participants
	Yes, it should be developed by the European standardisation organisations
	Yes, for other reasons
	No, I don't believe there should be a single EU QR code standard, because I think that the same objective could be achieved through the interoperability of existing QR codes
	No, I don't believe there should be a single EU QR code standard, because other technologies (e.g. Near Field Communication) are safer and/or more convenient

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x	No, for other reasons

Please explain your answers to question 18:

5000 character(s) maximum including spaces and line breaks.

As for the general initiation of instant credit transfers, the European Payment Council has already provided a QR-Code standard which is agnostic to specific use cases. It may support the face-to-face, mobile-to-mobile and e-commerce user experience or can be used to facilitate a more efficient invoice handling for consumers. However, more complex solutions, such as for instant payments at the POI, rely on individual business rules – a single/standardized European QR code may not be able to support all relevant requirements and could in the end act as obstacle to market-driven developments.

Horizontal aspects

Question 19. Do you believe that the widespread use of instant credit transfers could trigger risks that could negatively affect operations of a particular financial sector or pose broader societal costs (e.g., in terms of privacy)?

	Yes
x	No
	Don't know / no opinion / not relevant

Please explain your answers to question 19:

5000 character(s) maximum including spaces and line breaks.

We would like to highlight that instant credit transfers will only deliver the promised benefits to payers if the accepting users are ready to accept the incoming instant payments. Corporations and other payees would have to adapt their internal processes to cope with immediate availability of funds and complete instantly the underlying transaction (e.g. instant invoicing, instant warehouse unloading). The lack of ability by corporates to process SCT Inst transactions in real time could create unrealistic expectations, especially for transactions where an instant payment creates an expectation of a corporate taking immediate action. Business process such as customer service, settlement of customer accounts etc would be affected by increasing demand from customers aware of real-time payments and potentially put pressure on organizations to ensure 24/7 presence of some of their employees.

Level playing field with other players in the payments industry. Regulating SCT Inst could decrease the competitive position of banks vis-à-vis other providers of payment services, in particular TPPs, BigTech and other non-European players when they enter the payments market. Many of these parties offer payment solutions as an overlay on bank payment products. Hence, they can offer front-end payment solutions to clients without the need to develop the costly infrastructure behind it. Banks risk bearing the huge costs of building the "tracks" for modern, efficient payments in Europe. It would be equitable for other market participants, including TPPs and BigTechs, to contribute

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towards these costs. Furthermore, depriving banks from reaping the benefits of their investments in SCT Inst infrastructure by, for instance, regulating the price for instant SCTs, would weaken banks' competitive position in the market.

Contact:

The EACB trusts that its comments will be taken into account.

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