SEPA instant credit transfer: a guide to implementation

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Instant credit transfers among peers will take on new dimensions when Financial Institutions fully operationalize the SEPA Instant Credit mandate and migrate to the version 1.2 of the SEPA Instant Credit Transfer (SCT Inst) scheme rulebook which comes into effect on 19 November 2023. It will galvanise activities in retail payments given the opportunities and use cases instant credit transfer capability can support.

Peer-to-Peer (P2P) credit transfers are facilitated via the Single Euro Payment Area (SEPA) services that support both domestic and cross border P2P payment use cases. This version of SEPA, which is predominantly used by banks and payment service providers in several European markets, was introduced in 2014. Given that most SEPA payments are deemed “non-time-critical” and could see the recipient waiting up to 48 hours for the funds to be credited to their bank account provides an impetus for banks and payment service providers to migrate to the SCT Inst version of the peer-to-peer (P2P) service.

SCT Inst seeks a shorter timeframe for payments to be credited to beneficiary accounts. Since the issuance of the guidelines for SCT Inst in 2017, EU markets have responded differently to its adoption and usage. While many markets process a certain percentage of their SEPA credit transfers as instant credit (e.g. Germany [25%]; Spain [22.5%]; France [19.5%]; Italy [17.5%]; Austria [15.5%] and Belgium [12%]); many Irish banks are yet to migrate or operationalise the instant credit guidelines.

90% of payment accounts in Germany offer instant payments, while in France and Spain the figure is 85%. This is not the case in the Irish market and 90% of SEPA payments are still domestic in nature. Notwithstanding this, the Irish P2P transfer space is experiencing a surge in popularity and presents significant growth opportunities despite the current operational modalities, where recipients are not guaranteed to receive funds instantly (rather, within 48 hours of transfer).

According to the Central Bank of Ireland (CBI), credit transfers (transfers between two payment accounts) accounted for 96% of all payments in 2021, totalling €8.87tn—a 22% increase from 2020. The CBI also alluded to the fact that credit transfer originations were more digital in the same period while the number of paper-based credit transfers in the same period fell further to account for just 0.14% of the transactions. The growing activities of neobanks, which are digital-first entities in the P2P sphere point to evolving market expectations and opportunities for instant payments.

**P2P payments growth**

There are several reasons for the continued growth in P2P use cases. They include:

1. **Digital transformation**: Ireland has witnessed rapid digital transformation, leading to increased digital literacy and acceptance of online platforms. This favourable
environment encourages individuals to embrace P2P platforms as a convenient and secure way to transact with others.

2. **Changing consumer behaviour**: consumers in Ireland are looking for alternative financial services that offer flexibility, convenience and lower costs. P2P platforms provide a peer-driven approach, offering personalised experiences and attractive interest rates. This shift in consumer behaviour is a significant growth driver in the P2P space.

3. **Regulatory support**: Ireland’s regulatory landscape has evolved to accommodate the growth of P2P platforms. The CBI has been proactive in developing frameworks to ensure consumer protection, promote competition and foster innovation. This supportive regulatory environment encourages the entry of new players and boosts investor confidence.

4. **Access to capital**: P2P lending platforms provide an opportunity for borrowers, especially individuals and small businesses, to access capital that may be otherwise challenging to obtain through traditional banking channels. As awareness about the benefits of P2P lending grows, more borrowers are likely to explore these platforms, driving their growth.

### Understanding the consequences and impacts of the SCT Inst mandate

SCT Inst has four groups of deliverables. We discuss them in detail below, highlighting their consequences and impacts for industry practitioners.

1. **Instant settlement**

   **SEPA mandate**

   Obligation on banks and payment providers that offer money transfers in euro to offer their instant version (ten second timestamp to credit the beneficiary with transfer values of up to €100,000).

   **Consequences**

   - **The ten-second rule**: this means that eligible transfers must be completed within a very short timeframe (e.g. ten seconds) from the initiation of the transaction.
   - **Availability 24/7/365**: SEPA service availability and operations are expected to run 24-hours a day, seven days a week once the mandate becomes effective.
   - **Real-time transaction processing (RTP)**: banks and payment providers need to update their payment processing systems to handle instant transactions.
   - **Network optimisation**: high-speed and reliable network connectivity is essential for instant payments.

   **Impact**

   Banks and payment providers need to invest in the necessary infrastructure, technology and human resources to ensure that they can process and settle payments within the specified timeframe. This could involve upgrading payment systems, enhancing network connectivity and implementing efficient transaction processing protocols.
2. No additional fees

**SEPA mandate**

Obligation on banks and payment providers not to charge more for euro instant payments than for traditional money transfers in euro.

**Consequences**

- **No value-added pricing**: consumers cannot be charged more for instant euro payments compared to traditional payment methods.
- **Settlement collateral**: banks and payment providers to make incremental investment in settlement collaterals (security deposits) to meet instant credit mandates.
- **Pricing systems modification**: banks and payment providers will need to modify or overhaul their pricing systems to ensure that fees for instant payments align with those for traditional transfers.

**Impact**

Banks and payment providers need to adjust their fee structures and pricing models to comply with this directive. This might involve evaluating their current pricing strategies and making adjustments to avoid overcharging customers for instant payment services.

3. Beneficiary verification

**SEPA mandate**

Obligation on banks and payment providers to check whether the IBAN matches the name of the beneficiary and to alert the payer of a possible mistake or fraud before the instant payment is made.

**Consequences**

- **Shared liability**: banks and payment providers now have shared responsibility with consumers for verifying beneficiary names against the IBAN.
- **UX/CX modification**: banks and payment providers will need to make changes on the customer-facing front-end applications and platforms.
- **Real-time data integration**: integrate with external databases (SEPA IBAN Checker API) or identity verification services (other ASIPs) to verify beneficiary information.
- **Data matching algorithms**: banks and payment providers may need to develop advanced algorithms that can perform real-time matching between beneficiary names and IBANs.

**Impact**

Banks and payment providers need to implement systems and processes that can perform real-time verification of IBAN and beneficiary information. This might involve integration with databases or third-party services to ensure accurate matching of names and IBANs.

4. Sanction screening
**SEPA mandate**

Obligation on banks and payment providers to provide a harmonised procedure that ensures instant payments involving sanctioned persons are not processed.

**Consequences**

- **Fool-proof approach**: banks and payment providers require a harmonised procedure to ensure instant payments involving sanctioned individuals or entities are not processed.
- **Sanction list integration**: implement mechanisms to regularly update and cross-reference transaction details against international sanction lists.
- **Automated blocking**: develop automated processes that can halt payments involving sanctioned parties.
- **Fraud prevention**: implement advanced fraud detection and prevention systems that can quickly assess the legitimacy of transactions in real-time.

**Impact**

Banks and payment providers need to enhance their sanction screening processes to identify and halt instant payments that involve sanctioned parties. This might involve integrating with international sanction lists and databases to flag and prevent prohibited transactions.

SCT Inst will influence the P2P market in Ireland in several ways, including:

**Real-time processing (RTP)**

The ability to transfer funds in real-time will enhance the speed and convenience of P2P transactions, attracting more users to these platforms.

**Enhanced user experience**

With SCT Inst will come innovative, simplified and enhanced user experience that will encourage individuals to embrace P2P platforms as their preferred method for transactions.

**Increased trust and security**

The beneficiary verification feature will bolster users’ confidence in the safety of their transactions, which will foster trust and further propel the growth of P2P platforms.

**Cross-border transactions**

SCT Inst will facilitate seamless cross-border transactions, allowing individuals in Ireland to engage in P2P activities with users from other participating European countries. This expansion of the potential user base will fuel growth and create new opportunities for P2P platforms.

**Considerations for implementation**
Financial services institutions must consider the implementation model for commercialising SCT Inst between the 4-Corner and Clearing and Settlement Mechanism (CSM) models.

The former presupposes that the sending and receiving institutions enter into a mutual agreement for executing SCT Inst. Meanwhile, the CSM-led model presupposes a single central entity acting as the clearing and settlement arm for all domestic operations of the SCT Inst initiative.

**The opportunities for Irish banks and payment providers**

1. **Merchant payments**: P2P platforms can tap into the merchant payment space by enabling P2P payments for goods and services. This positions P2P platforms to compete with traditional payment methods and offer cost-effective and efficient alternatives, ultimately driving growth in the P2P space.

2. **Social lending**: P2P lending platforms can explore opportunities in social lending, where individuals can lend money to friends, family or social connections. By facilitating loans between trusted individuals, P2P platforms can enhance the social aspect of lending, creating new growth avenues and catering to the needs of individuals who prefer to lend within their network.

3. **Micropayments and crowdfunding**: P2P platforms can capitalise on micropayments and crowdfunding opportunities to enable individuals to make small-value transactions conveniently. Crowdfunding allows users to pool funds for various projects or causes, thereby creating niche markets and fostering further growth in the P2P space.

4. **Collaborative consumption**: P2P platforms can expand beyond financial transactions and facilitate collaborative consumption by providing a trusted platform for asset sharing (e.g. vehicles, accommodations etc.) P2P platforms can tap into the growing sharing economy and drive growth through collaborative consumption models.

**We are here to help you**

Our team of experts can help you migrate to SCT Inst rulebook 1.2 efficiently and effectively. We can provide regulatory, technical and strategic guidance as you implement the requirements in the following areas:

- **Assessing strategic and operational readiness**: assess the impact on your business, develop a strategy and ensure that they are consistent with the rulebook guidelines and requirements.
- **Technology**: provide end-to-end assessments of systems to identify gaps and support the selection and implementation of technology solutions relevant to the transition.
- **Training and communication**: identify the respective teams impacted by these changes and prepare them for the migration to SCT Inst by developing training programmes and equipping them with client communication plans.

Contact us today.