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SCT Inst: the European instant payment proposal

PSD2 in a nutshell

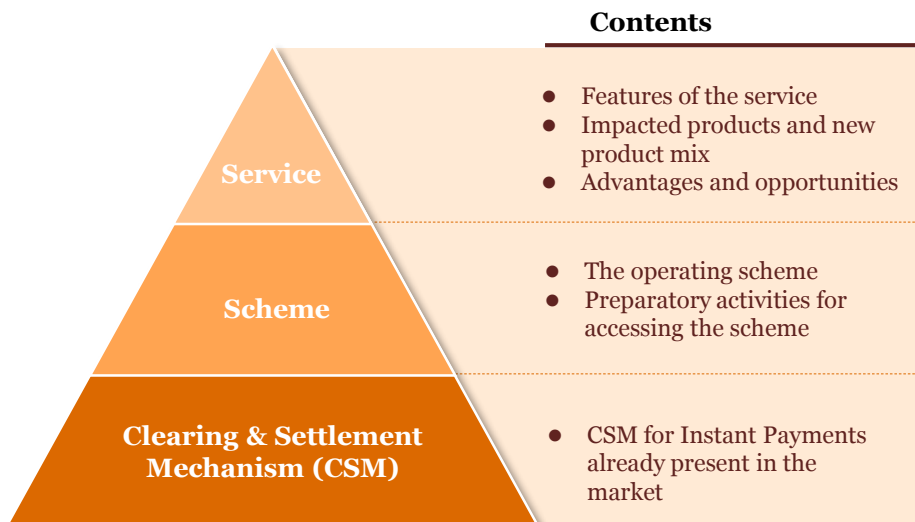
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Summary

The SCT Inst scheme is an *Instant Payments (IP)* solution which enables credit transfers within the SEPA area in less than **10 seconds**. It was introduced by the Euro Retail Payments Board (ERPB) after having identified the huge potential of *IP* for the **enhancement of digitalisation**.

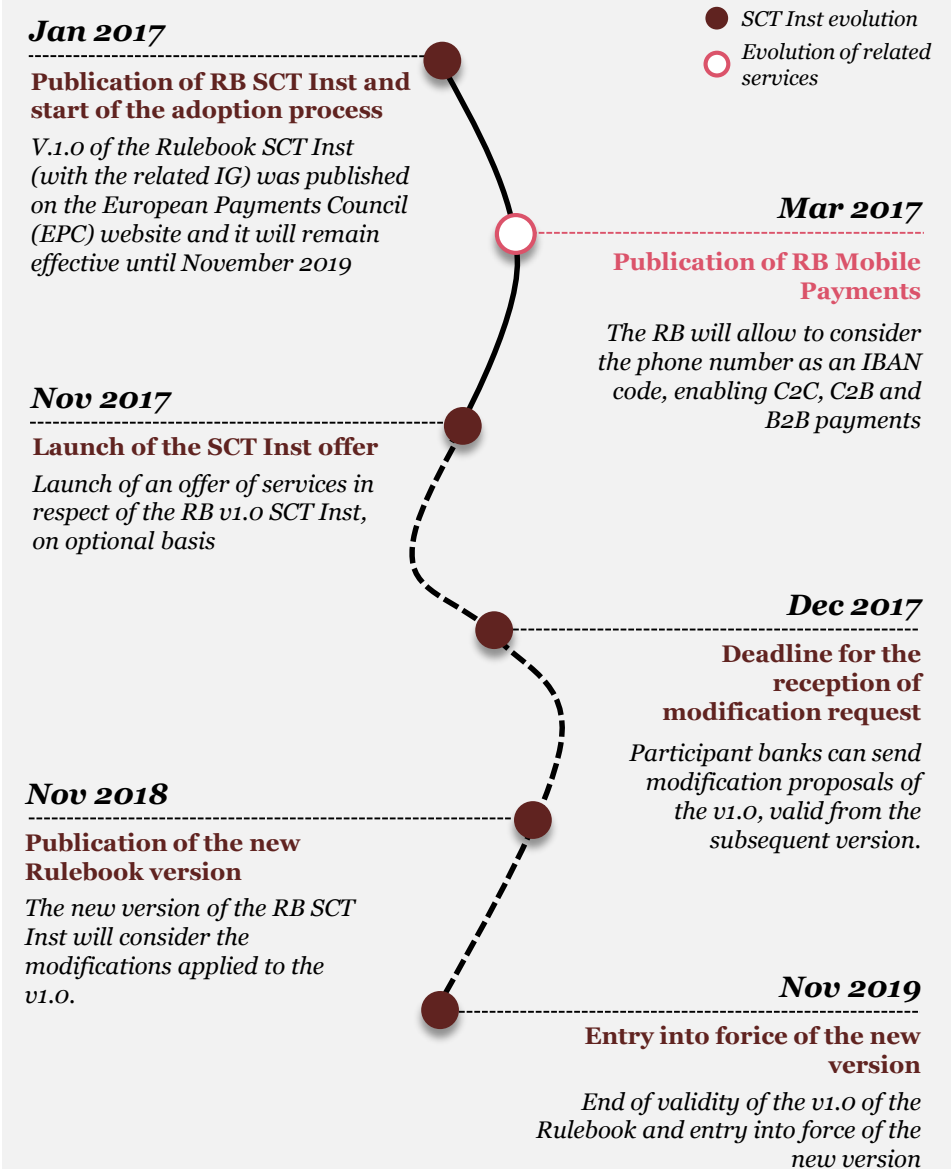
The European adoption of an IP scheme based on the use of SEPA credit transfers, that can be also launched from mobile, makes it possible to break down the barriers and time constraints characterising standard transfers, guaranteeing **certainty** and **immediacy** in the credit of the amount. In addition, the new service enables innovative methodologies and 'use cases' in synergy with technological market trends.

The SCT Inst can be represented by 3 categories:



Fonte : Associazione Bancaria Italiana

Timeline of the Instant payments



Features of the service

The SCT Inst scheme, **optional** for participating banks, has a potential geographic scope that includes the **34 countries** composing the **SEPA** area and relies on the pre-existing credit transfer architecture.

The **speed** of execution and the **availability** of the service are the main novelties introduced by the scheme.

EPC has defined a series of **interbank rules** and **standards** that must be respected by the participants to the scheme:

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The **credit** of the funds on the account of the payee is **expected within 10 seconds** also for cross-border transactions between SEPA countries (Euro currency)



Services based on the SCT Inst scheme will be available **24 hours a day, 365 days a year**

15k
max

The **limit** for the maximum transferable **amount** is **EUR 15,000** for payment instruction



The **participation** to the scheme is **optional**: if a PSP decides to join, it must do so at least as a beneficiary bank



Participants can **decide bilaterally** to **increase** the maximum limit of the **amount** and/or **reduce** the **execution time**

The new scheme represents a solution with continuity in respect to the traditional SCT scheme, but it includes several advancements:

- **Processing on the single transaction:** unlike the traditional SCT scheme where the processing of payment transactions is of a batch type, Instant Payments transactions are validated and processed individually, with a service level of 24x7x365
- **Immediate availability of funds:** the new scheme ensures the availability of funds to the payee within 10 seconds from the initiation of the transaction, making it necessary to eliminate the cut-offs that would delay the actual credit entry
- **Need for real-time reconciliation:** The SCT Inst scheme might require the implementation of real-time reconciliation controls to avoid overcoming the availability of the settlement account of the banks that comply with the scheme
- **Individually-managed notifications:** it will have to be ensured that individual and immediate notifications are sent to the bank of the payer and the one of the payee with detailed information on the single transaction
- **Management of the exception within 25 seconds:** the SCT Inst scheme does not include “Return” messages and introduces time constraints on “Reject” messages that will have to be processed within 25 seconds of the transmission of the payment order to the interbank space

Impacted products and new product mix

The adoption of the SCT Inst scheme could lead on one side to the development of innovative payment solutions (also in P2P, P2B, B2B) while, on the other side, to the partial replacement of some of the currently used tools

Products	Potential impact	Main advantages of the SCT Inst
SCT Standard		<ul style="list-style-type: none"> Instant settlement (for amounts below 15k €) Guarantee of irrevocability and certainty of the transfer of funds Potential replacement of the urgent SCT
Cashier's check		<ul style="list-style-type: none"> Guarantee of the payment at the same time of the delivery of goods Fast confirmation of the payment Simplified payment process and better customer experience
e-Commerce / virtual POS		<ul style="list-style-type: none"> Alternative business models enabled by speeding up the settlement operation Overcoming the plafond concept for the online payments by card

Source: PwC analysis



In the first phase of the service introduction, excluding the pricing choices and the experience that the players in the payment market will be able to guarantee, it is assumed that the Retail and SME segments, characterised by great online operations, will be the ones mostly inclined to use the service.

The possibility of using SCT Inst at “brick and mortar” Merchants might require a longer time to market, due to the investments needed for the adequacy of the infrastructures and, the enabling of a service model with simplified user experience (e.g. QR code, dedicated apps, ...).

SCT Inst in the Italian market – PwC estimates

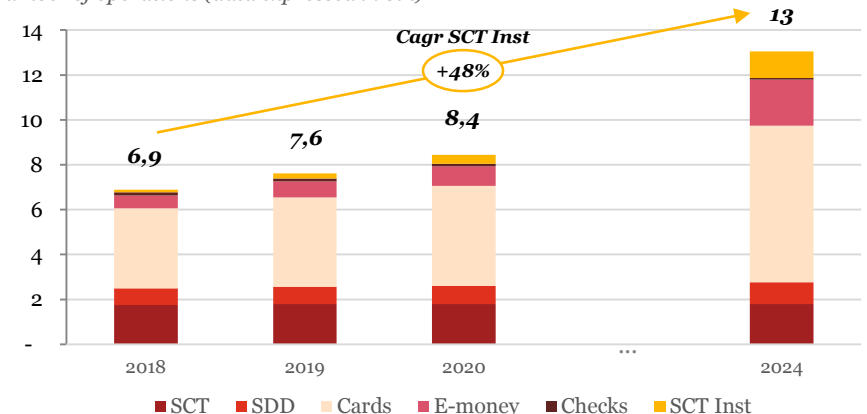
According to first PwC estimates, the introduction of SCT Inst in 2017, would lead to a progressive contraction in the operation of those banking products on which it has a direct impact:

- Standard SCT, cancellation of the systemic growth (-8% c.a.);
- checks, further reduction of the systemic decrease (-3,6% c.a.);
- e-money, slight reduction of the systemic growth (-2% c.a.).

On the basis of the performed diffusion analysis, the penetration rate of the SCT Inst service, in terms of the number of transactions compared to the main cashless payment services present on the Italian market, is approximately 1.7% (i.e. 6% of the Total SCT emissions) in 2018, reaching about 9% (i.e. 40% of total SCT emissions) in 2024. The analysis shows more cautious results when compared to other diffusion estimates present on the market*.

Forecast of number of cashless operations and new mix of products in 2024

Number of operations (data expressed in bln)



Methodological note: proposed estimates might vary on the basis of the pricing hypotheses adopted (0,30 – 0,40 € more than a standard SCT)

Source: PwC analysis on BIS, BCE data *Open Forum on Paneuropean Instant Payments, BCE

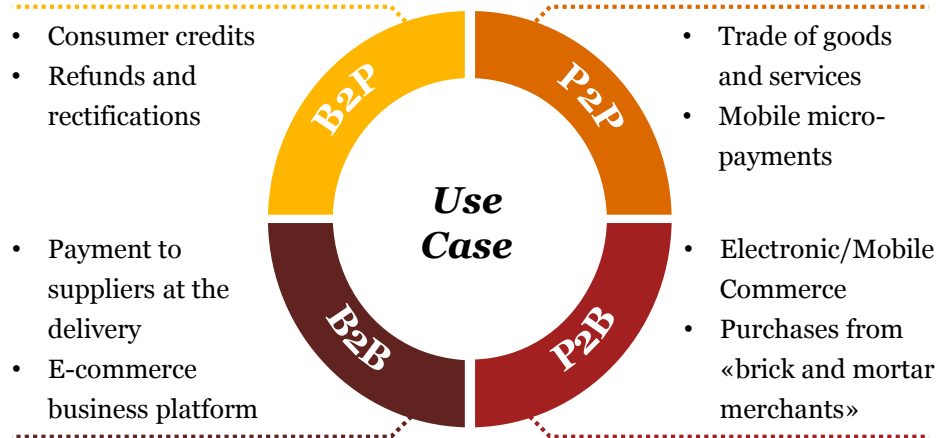
Advantages and opportunities

For the Banks

- New direct and indirect revenue streams linked to the development of an innovative P2P, P2B and B2B product
- Improve customer retention and acquisition
- Development of a technological infrastructure in synergy with the development of PSD2 services
- Simplification of some banking processes linked to the payments back-office

For the clients

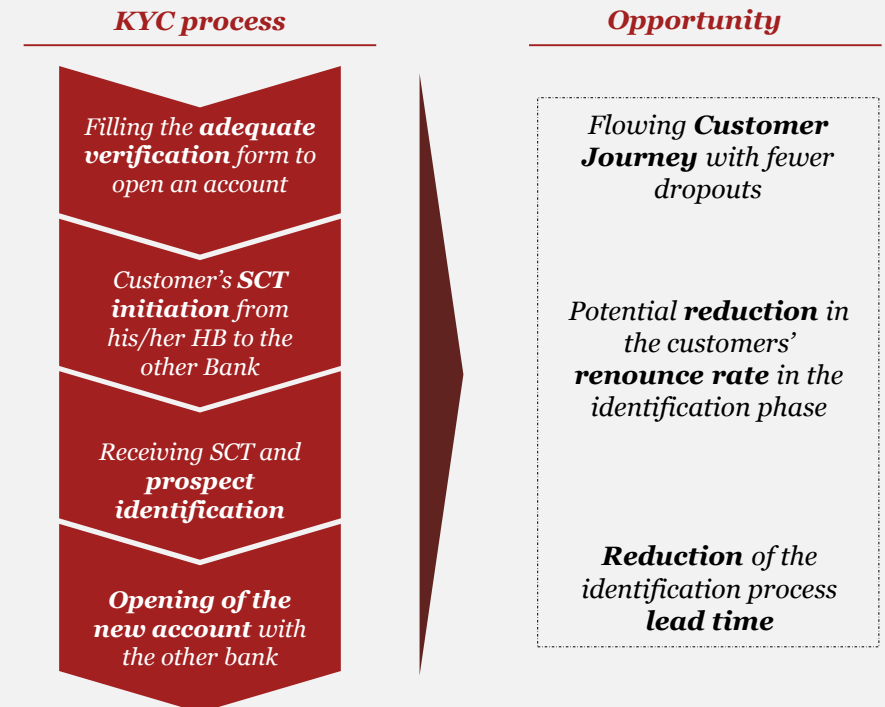
- Guarantee of closing a payment in real-time
- Tool enabling “last-minute” payments
- Improvement of the cash flows monitoring process thanks to the real-time update of the liquidity position
- Better customer experience in the payment process
- Tool facilitating the development of P2P mobile micro-payments



A possible use case

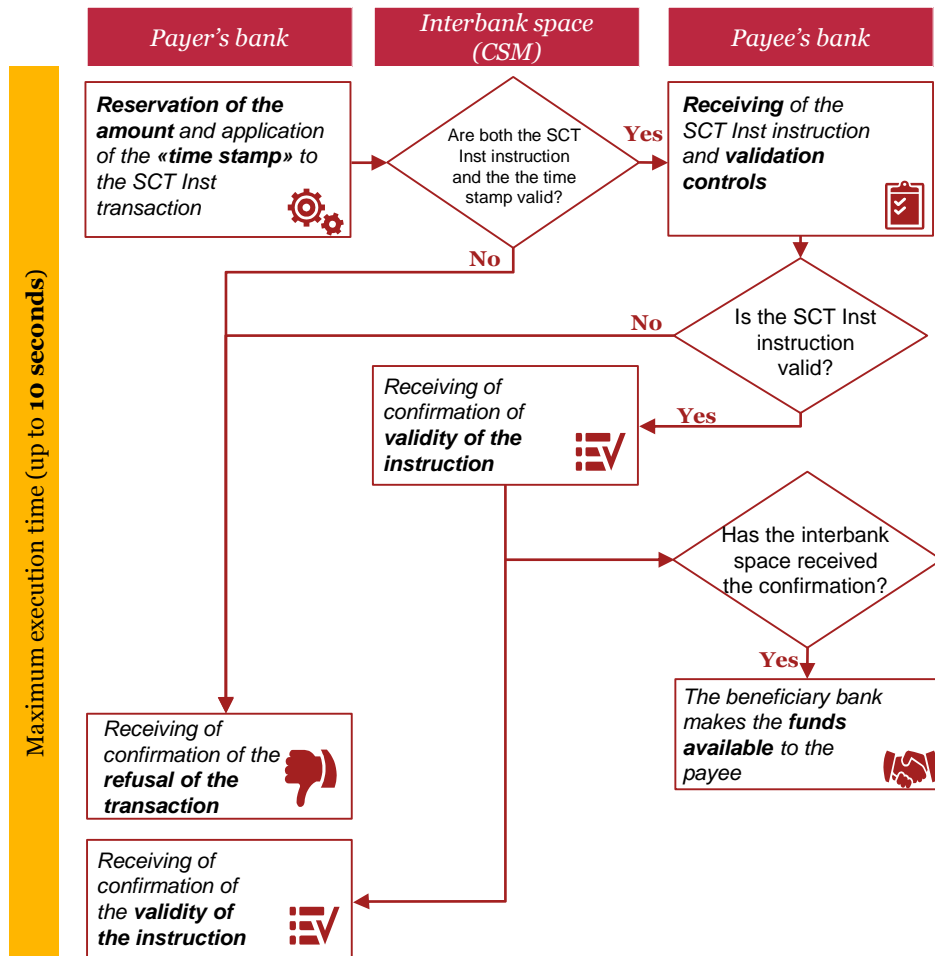
In addition to the use as a payment instrument, the SCT can be used as a mean of identification of the prospects which is necessary to meet the tightened requirements on adequate verification for the sale of financial products through remote channels.

Indeed, the SCT Inst scheme could ensure a simplification of the customer journey of the remote sales of financial products, promoting an overall improvement of the experience and leading to lower potential dropouts in the process of opening an online account.



The operating scheme

The working principles of the SCT Inst scheme within 10 seconds, starting from the application of the *time stamp*.



Source: EPC, SCT Instant Rulebook v1.0

Further additional activities, useful to understand the working principles of the described scheme, are presented below.

Highlights

- **Controls:** the maximum execution time defined in the SCT Inst scheme does not include the **controls** carried out by the Bank of the payer (i.e. AML, anti-fraud, signature powers, availability check), which are performed **before the time stamp** application.
- **Time-Out Deadline:** the SCT Inst instructions received after the **time out deadline (20 seconds)**, by the Bank of the payee or by the Intermediate Space CSM, must be **rejected immediately**. Within the next 5 seconds, outcome messages must be sent to the Bank of the payer.
- **Settlement:** no requirements are prescribed for settlement mechanisms (**out of scope** of the scheme)
- **Notifications to the user:** the scheme provides for two types of notifications
 - compulsory:** in the event of a **negative outcome** of the transaction, the Paying Bank **notifies the payer** of the refusal and of the release of the funds reservation
 - optional:** in the event of a **positive outcome**, the Banks can send **to the payer a notification about the success of the operation**, and to the payee a notification of **funds availability**.

Activities preparatory to the SCT Inst scheme adoption

To join the SCT Inst scheme, banks are required to address business, organisational, technological, legal and compliance activities. A list of the main interventions is presented below:

Strategic and technological choices



Business Case

Evaluation of business models and pricing definition



Infrastructure platform

Scouting and adoption of a technological platform enabling the use of SCT Inst

Verifications of application and infrastructure adequacy



Procedural adjustments

Check of the impacts on the back end procedures and of potential adjustments



Multi-transactions

Verification and possible adjustment of system to manage the potential peaks of transactions, overcoming the batch operation expected for traditional SCTs



Mirror account

Potential adoption of solutions that enable 24/7/365 operations to cope with downtimes and cut-offs of core banking services



Back-office integration

Verification of the possible interdependencies with the bank's systems and organizational units for the service realisation



Anti-fraud monitoring

Verification and possible adjustment of the anti-fraud arrangements in order to identify and block the fraudulent activity according to a real time paradigm



Front end

Adjustment of the interface offered to the user and to the operators

Contracts and organisational arrangements



Contracts

Adjustment of the documentation compulsory to the Competent Authorities (Adherence Pack) and of the information sheets on the terms and conditions of the service

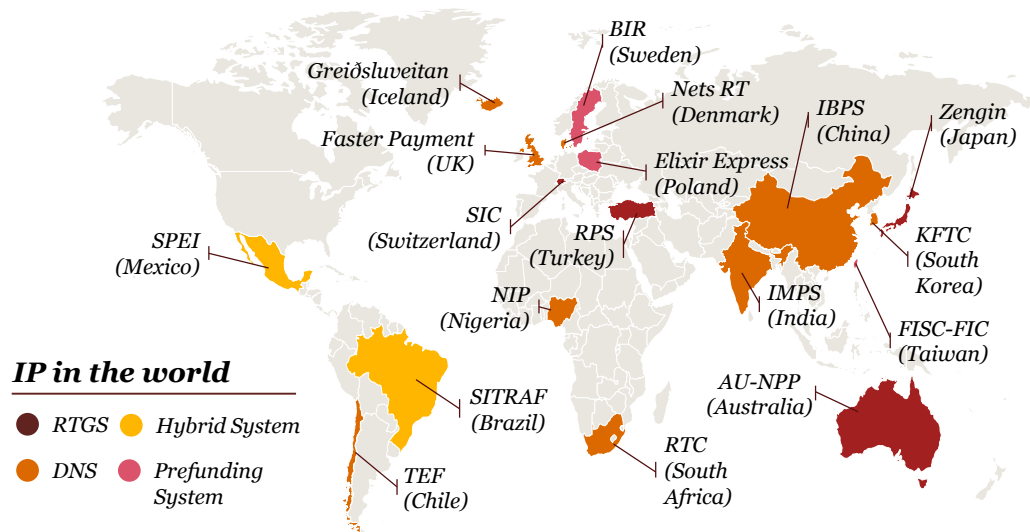


Organisational arrangement

Analysis and addressing of the organisational arrangement that is needed to support the service 24/7/365 and the regulatory monitoring

CSMs for Instant Payments present on the market

- **Real Time Gross Settlement (RTGS)**: the credit on the payee's account occurs alongside with the transfer of funds between the PSPs, which takes place on a gross basis on the amount of the single transaction
- **Deferred Net Settlement Systems (DNS)**: the credit on the payee's account is decoupled from the transfer of funds between the PSPs, which takes place in a subsequent moment on the basis of the net balance calculation
- **Hybrid System**: the settlement of payments occurs on the basis of needs (i.e. liquidity shortage), arranging a settlement queue where the least urgent payments are settled through DNS, while the most urgent ones through RTGS
- **Prefunding System**: is based on a technical settlement account in which every participant bank deposits funds to cover future payment initiations; working principles are the same of a DNS system but the credit risk between PSPs is eliminated



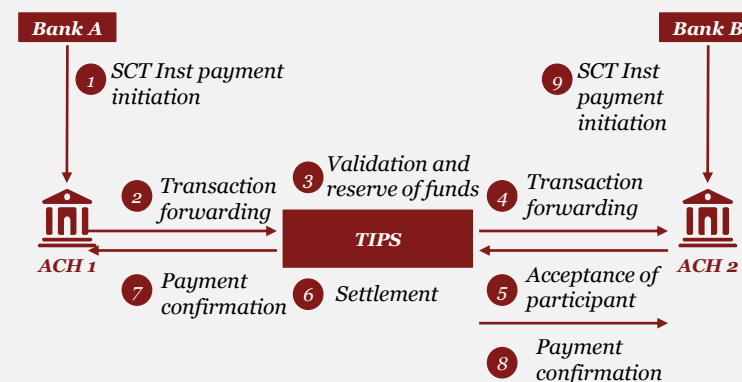
Target Instant Payment Settlement

TIPS is the ECB's proposal that provides **instant settlement functionalities (RTGS)** for the payment initiations in CeBM (Central Bank Money), enabling participants to **comply with the SCT Inst scheme** developed by EPC for Instant Payments in Euro. The proposal, which was approved by ECB in June 2017, expects the service to be **operative by November 2018**.

The adoption could lead to the harmonisation between different countries of the phase of the SCT Inst payments settlement and to the standardisation of communication through the use of standard **ISO 20022** messages.

This service, with adhesion procedures in accordance to the same TARGET2 criteria, would ensure the absence of cut-off windows (instant settlement 24/7/365).

Overview of the Instant Payment process, realised with the TIPS solution



Source: PwC on public data

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Christoph Obermair

Partner

+43 699 10871262

+43 1 501 88-3629

christoph.obermair@at.pwc.com

Stefan Moser

Senior Manager

+43 699 16305012

+43 1 501 88-1156

stefan.moser@at.pwc.com