Making instant and inclusive payments a reality in the EU

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Explainer

Introduction

On 19 March 2024, the Regulation on Instant Payments was published in the *Official Journal of the European Union*. The generalisation of instant euro payments in the EU will lead to very relevant benefits in terms of liquidity management, market competition and convenience for users. Furthermore, it could possibly lead to an increase in public revenues, more innovation, progress in completing the Single European Payments Area (SEPA) and financial inclusion.

This explainer delves into the benefits, as well as into the specifics of the Instant Payments Regulation, explaining how it is expected to succeed at dealing with obstacles in supply and demand and outlining implementation timelines. Though instant and inclusive payments will soon be a reality in the EU, pan-European payment solutions are not here yet. This is precisely why interoperability should be fostered to promote the scaling up of current cross-border payment solutions which will give place to a competitive pan-European payments ecosystem.

Definition, benefits of instant payments and global position of the EU

Instant payments are a sort of immediate credit transfer, whereby the funds instantly pass from the account of the payer to that of the payee, at any time on any day of the year. Starting in January 2025, PSPs in the euro are will have to be aligned with the instant payments regulation . The main difference between an instant payment and a regular credit transfer is that it has to reach the account of the payee within 10 seconds, while a regular credit transfer can take up to 48 hours before reaching the payee's account.

Instant payments bring very relevant benefits to the field of payments:

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- They allow for the release of billions of euro locked in the financial system, facilitating a more efficient allocation of resources and better cash management practices. The European Commission has estimated that instant payments would release EUR 187 billion in transit in credit transfers.

- On top of being more convenient for users, instant payments could represent cost savings for merchants, as they could be offered a wider range of payment options compared with the traditional payment ones currently available.

- If instant payments partially replace payments in cash, some shadow economic activity would become traceable, leading to an increase in public revenues.

- Innovation could be boosted, with more room for the participation of fintechs, which could develop mobile apps or even wearables that enable instant payments.

- If instant payments were to properly work at the pan-European level, the SEPA project would be completed.

An additional benefit that is not usually highlighted is financial inclusion. An analysis by ACI Worldwide shows that, in 2023, for every 5 % increase in the volume of instant payments, the number of people aged 15 to 24 globally who saved money increased by 15.6 % on average. The need to improve the financial prospects of young adults in the EU is urgent. Currently, 24.5 % of those aged 15 to 29 are at risk of poverty or social exclusion, EU youth unemployment in January 2023 was 14.9 % and many young Europeans have been unable to move out of the family home.

Developing innovative instant-payment solutions can facilitate access to financial services and payments for younger populations. That being stated, the effects of instant payments on financial inclusion in the EU are likely to be limited, as the majority of the financially excluded suffer from difficulties in using digital solutions. This can be confirmed by the fact that the present payment infrastructure available to European consumers is generally very well developed, with almost all consumers having access to payment accounts.

The switch to instant payments is expected to make it even easier for consumers to make transfers, as new payment solutions develop. The regulation also tries to tackle the persisting trust and security issues connected with digital payments by introducing new security measures. An example of this is the requirement for PSPs to allow the payer to see if the name and account information of the recipient correspond, before confirming the credit transfer.

By connecting the Payment Accounts Directive with the Instant Payments Regulation, any customer with a basic payment account will have the right to receive and send instant payments. It will be further reinforced under a new proposal for a third revision of the Payment Services Directive (PSD3), where a smart device will not be requested. This is especially important for the elderly, who generally have suffered more from the digital transformation of payments.

Even with a well-developed payment system, ***Table 1*** illustrates the need to nudge the market in order to increase access to and use of instant payments. The EU is not the top economic area for the take-up of instant payments. As can be seen in the table, Europe was ranked fourth in 2022, well below other areas such as the Middle East, Africa and South Asia, Latin America, and Asia Pacific. Indeed, the two undisputable global leaders in instant payments in 2022 were India, accounting for 46 % of global instant payments, and Brazil, accounting for 15 %. The other countries completing the top 5 were China, Thailand and South Korea.

Table 1. Instant payments around the world in 2022

	Instant payments (billion)	Share of instant payments in total electronic payments (%)
Middle East, Africa and South Asia	95.7	72.2
Asia Pacific	49.2	11
Latin America	33	33
Europe	13.2	7
North America	3.9	2

Source: Authors' elaboration on the basis of ACI Worldwide.

One could reasonably argue that the above-mentioned figures are not representative to the extent that the most populated countries should in principle account for a higher volume of instant payments. Yet, taking instant payments as a share of total electronic payments confirms the low share of instant ones in Europe compared with almost all other regions. It is still important to remember that the total amount of credit transfers in a region has to be considered, as per capita transfers in Europe and North America are higher than in any other region.

Taking into account the number of instant payments per capita, the classification changes slightly, showing two Scandinavian EU Member States and the Netherlands in the global top 10 classification (*Table 2*).

Table 2. Instant payment transactions per capita and per month (IPPCPM): Global ranking, 2022

Global ranking	Country	IPPCPM
1	Thailand	23
2	Bahrain	19.1
3	South Korea	14.7
4	Brazil	14.1
5	Sweden	9.5
6	Denmark	8.8
7	India	7.4
8	Netherlands	6.2
9	United Kingdom	5.9
10	Malaysia	5.3

Source: Authors' elaboration on the basis of ACI Worldwide.

At the euro area level, the ranking of instant payment transactions per capita and per month is shown in ***Table 3***, with the Netherlands and Finland in top positions. The table also illustrates the large differences between countries, where the last three Member States in the top 10 have fewer than one instant payment transaction per capita and per month.

Table 3. Instant payment transactions per capita and per month (IPPCPM): Regional ranking in the euro area, 2022

Global ranking	Country	IPPCPM
1	Netherlands	6.2
2	Finland	2.7
3	Austria	2.6
4	Belgium	1.5
5	Spain	1.3
6	Germany	1.3
7	Greece	1.1
8	Italy	0.6
9	France	0.3
10	Portugal	0.1

Source: Authors' elaboration on the basis of ACI Worldwide.

But instant payments should not undermine the benefits of cash. An instant payment is the best alternative to cash, allowing for immediate transfers between individuals at a point of sale. It is nonetheless essential that while new instant payment solutions are being developed, it remains possible to use cash – more precisely, cash-in-shop and cashback payments[2]. Many consumers still struggle to make payments using digital tools, do not trust digital means of payment or have a preference for using cash. It is essential that in symbiosis with innovative payment solutions, payments in cash continue to be possible.

The European Commission is maintaining the necessity of easy access and use of cash as a priority in the proposals for a payment services regulation and the PSD3. The new proposals include provisions to ensure consumers can continue to pay in cash, combined with improved availability of cash. This is done by allowing retail providers to function as independent ATM operators for amounts that do not go beyond EUR 50.

Supply and demand barriers to instant payments

The proposal for the Instant Payments Regulation tabled by the European Commission was built on identifying and tackling the supply and demand barriers to instant payments.

Starting with supply-side barriers, according to data from the European Commission, there is a big gap in compliance with the SEPA Credit Transfer schemes in euro, with numerous PSPs that adhere to the SCT scheme do not adhere to the SCT Instant (SCT Inst) scheme. Further, there is a lack of PSPs able to receive instant payments, thus incurring the risk of sending an instant payment that cannot be received

[2] Cashback is a service allowing customers to withdraw cash from their bank accounts while making a purchase at a retail store, typically using a debit card. And cash in shop also allows a customer to withdraw cash in a store, but without the need to make any purchase.

by the payees' PSP. Also, between 0.4 % to 9.4 % of cross-border euro instant payments are rejected due to inefficient anti-money laundering processes.

Complying with the SCT Inst scheme, however, does come with certain costs for PSPs and banks. PSPs will be required to adapt their services to facilitate instant payments for the same price as a traditional transfer. Banks will also need to invest in the necessary infrastructure enabling instant payments.

Regarding demand, the main obstacles relate to pricing, with PSPs imposing premium fees of up to 6 times for instant payments with respect to regular payments, and security concerns over fraudulent or misdirected payments.

Content of the Instant Payments Regulation

Before approval of the Regulation on Instant Payments – which modifies the SEPA Regulation, the Cross-border Payments Regulation, PSD2 and the Settlement Finality Directive – EU PSPs (e.g. banks) were obliged to offer regular credit transfers and direct debits in euro under the same harmonised rules. However, since instant payments did not exist in 2012, as the SEPA Inst scheme was only launched in 2017 and TIPS (the ECB's clearing and settlement system) in 2018, such an obligation did not cover instant payments.

Under the approved Instant Payments Regulation, PSPs will be given a period in which to become capable of receiving instant credit transfers and an extended period to ensure the capacity to make an instant payments to any bank that is part of SEPA. Payments will need to reach any payment account within a maximum of 10 seconds, regardless of whether it's located in the same or another EU Member State. Payment institutions (PIs) and e-money institutions (EMIs) are also granted access to payment systems, meaning these entities will likewise need to comply with the obligation to offer the service of sending and receiving instant credit transfers.

PIs, EMIs and PSPs of Member States outside the euro area have been granted additional time to receive and send instant payments as per ***Table 4*** below. All the deadlines highlighted below were significantly increased during interinstitutional negotiations with respect to the European Commission's initial proposal. These obligations should largely overcome the main supply-side obstacles, thereby reducing payers' reluctance to opt for instant payments out of fear that the payee's PSP will not be able to receive the payment.

Table 4. Implementation deadlines for the Instant Payments Regulation

Category of PSPs	Instant credit transfers	Date
Eurozone-based PSPs other than EMIs and PIs	Receiving	9 January 2025
	Sending	9 October 2025
Eurozone-based EMIs and PIs	Receiving and sending	9 April 2027
Non-eurozone-based PSPs other than EMIs and PIs	Receiving	9 January 2027
	Sending	9 July 2027
Eurozone-based EMIs and PIs	Receiving	9 April 2027
	Sending	9 July 2027

Source: Authors' elaboration – Instant Payments Regulation.

Moreover, to remove pricing disincentives for instant credit transfers, the Instant Payments Regulation ensures that where charges apply, these should not exceed those applicable for regular credit transfers.

Fraud prevention and trust are key for EU customers and businesses in making instant payments the new normal. Otherwise, instant payments will be limited to low-value transactions, reducing many of the benefits they could lead to. This is why the Instant Payments Regulation has introduced the IBAN name check, or Verification of Payee (VoP).

In particular, the Instant Payments Regulation envisages a 'service ensuring verification' of the payee for all credit transfers (i.e. both instant and regular credit transfers). It requires the payer's PSP to offer its client a verification service for matching the name of the payee with the IBAN number. This service must provide different levels of matches (e.g. no match or almost match) and allow the payer to decide whether to authorise the payment, while being aware of the respective consequences of failing to observe the result of the matching. ***Table 5*** signals the implementation deadlines for the VoP.

Table 5. Implementation deadlines of the Instant Payments Regulation based on currency

Category of PSPs	Date
Eurozone-based PSPs	9 October 2025
Non-eurozone-based PSPs	9 July 2027

Source: Authors' elaboration – Instant Payments Regulation

Finally, another important step to lower the current rejection rates and false positives of instant regular transfers is a new article dedicated to sanctions screening. It requires PSPs to verify whether any of their payment users are persons or entities subject to targeted financial restrictive measures. This must be done periodically (i.e. immediately after the entry into force of any new targeted financial restrictive measures and immediately after the entry into force of any amendments to such measures) and at least on a daily basis. All PSPs must comply with the new sanctions screening obligations by 9 January 2025.

Cross-border payment solutions

The European payments market today features (i) a robust regulatory framework; (ii) a strong presence of national champions in digital payment services, as shown in ***Figure 1***; (iii) a continual increase in the number of SEPA Inst transfers; (iv) reliance on non-European players; and (v) the emergence of new initiatives and possibly a digital euro.

Complementing the payment market regulations with the Instant Payments Regulation helps to further strengthen the cohesion of European payment markets. Behind the multiple different national solutions for instant payments observed in Figure 1 in countries such as the Netherlands, Spain and Sweden, are national banks. In these cases, private banks have developed national card networks, connecting the different banks, in parallel to the traditional networks.

Figure 1. Digital payment market leaders

Source: SIBS.

Up until now, PSPs in the EU have largely been following a national approach and merchants have been dependent on international card schemes for cross-border payments. This was indeed acknowledged by the ECOFIN Council Conclusions of 22 March 2021 on the Commission Communication on a *Retail Payments Strategy for the European Union*. The conclusions state that 'most domestic payment solutions based on cards or instant payments currently do not work across borders, which can constitute an obstacle for cross-border payments in shops and e-commerce'. They also note that 'there have been a number of new public and private developments recently, with a view to the adoption of common European infrastructures, schemes and rules'.

Through the Instant Payments Regulation, the EU has given a strong push towards one of its objectives in the field of payments – to develop pan-European payment solutions. Envisaged as continuing to build on existing national methods for instant payments, the regulation could provide significant added value by supporting national initiatives to expand regionally and potentially even to the pan-European level.

Established and new market players in the EU can now seize the opportunity to develop a new method or build on current ones for instant cross-border credit transfers. The focus is now on developing point-of-interaction solutions for account-based payments, using instant credit transfers. Setting up this last building block is crucial to get the most from instant credit transfers to consumers and businesses in the EU.

Numerous regional initiatives are currently being developed. An example of this is EuroPA. This initiative is based on a partnership between the leading companies for mobile instant payment services in Italy (BANCOMAT Pay), Portugal (MB WAY by SIBS) and Spain (Bizum). Starting off as a regional initiative, the partnership has the ultimate target of becoming pan-European.

The initial goal of the agreement between the three companies was to develop peer-to-peer payments based on instant credit transfers by 2024, with a view to extending their reach to other use cases. They will reuse existing infrastructure and technical components (TIPS and T2[3]) and leverage recognition of their brands. They are open to engaging with other European players.

There are similar initiatives among other Member States, such as Payconiq in Belgium, the Netherlands and Luxembourg, or Vipps MobilePay in Denmark, Finland and Norway. The service offered by Payconiq does not currently allow all users to make instant credit transfers. If the bank of the customer allows for it, the payment will arrive instantly; otherwise, the transfer is made like a traditional credit transfer, most commonly reaching the account of the recipient on the following day.

In the case of Vipps MobilePay, the payment is supposed to be made instantly. In November 2022, Vipps and MobilePay merged in order to create a single cross-border wallet service. The cross-border payment approach offered by Vipps MobilePay is the first of its kind. By involving Norway, the collaboration goes beyond the borders of the EU. What makes it even more interesting is that it entails three currencies, with Denmark and Norway each having a national crown and Finland the euro. This will require the instant credit transfer to also include a currency conversion. The service is expected to go live in summer 2024. The Nordic group is planning to go a step further, by expanding its services to Sweden in cooperation with Swish.

The European Payments Initiative (EPI) and the European Mobile Payment Systems Association (EMPSA) are other examples that could make the EU's ambitions a reality. The EPI is a collaboration of 16 banks and financial service companies, based on instant payments. The aim of the initiative is to develop a digital wallet and unified account-to-account solutions that facilitate P2P transfers, payments at the point of sale and for online transactions. EMPSA brings together 11 different European mobile payment providers. It is striving to develop interoperability between the different payment solutions so they can be used cross-border.

Conclusions

In encouraging instant payments, the new regulation will help to advance the single market for payments. Facilitating the development of innovative solutions and new market entrants, the Instant Payments Regulation has facilitated the emergence of new pan-European and regional cross-border instant payment solution such as EuroPA, Vipps MobilePay, EMPSA and EPI.

Many players have yet to adhere to the SCT Inst Scheme. The important (but nonetheless reducing) adherence gap to SCT Inst continues to hinder the development of instant cross-border payments. With this new regulation, the European Commission has decided to tackle the issue head first by introducing strict deadlines defining when PSPs must be able to receive and make instant credit transfers. Once these requirements are met, new instant payments between all PSPs in the EU are likely to smoothen the entire payments experience - both at home and abroad.

[3] A real-time gross settlement system owned and operated by the Eurosystem, used for processing large-value euro transactions between banks in the European Union, ensuring efficient and secure monetary transactions across Europe.

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