

Benefits of instant payments and recommendations for payment service providers

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As highlighted by the Eurosystem's [retail payments strategy](#), the uptake of instant payment services is one of the key areas of development in the payments field. In order to reach the strategic goal of full deployment of instant payments, payment service providers (PSPs) are expected to make this service available to all individuals and businesses, to provide it under attractive conditions, to develop additional new functionalities like Request to Pay, and to overcome current issues of usage like the relatively significant number of rejected cross-border transactions.

With this document, the Eurosystem wishes to encourage PSPs' instant payments-related developments by highlighting the potential benefits of such innovation. It also provides PSPs with key recommendations for market developments with the aim of achieving a well-functioning, interoperable service.

1. Main benefits of instant payments in general

Main benefits:

- **Instant payments can help to maintain the competitiveness of PSPs with new and existing challengers by meeting consumer demand.** PSPs can stay competitive vis-à-vis both incumbents and newcomers like big tech and fintech firms by providing advanced payment services to their customers who are looking for more digital and real-time payment solutions.
 - **Instant payments can help to acquire new customers.** Offering an instant payment option integrated with traditional payment services will give existing customers a broader set of services and might help to attract new customers.
 - **Increased revenue due to economies of scale and customer retention can be achieved by creating value for customers. This can be done by supporting an array of instant payment capabilities and better suiting user needs.** Additional services may include:
 - providing additional functions in innovative smartphone or online applications to support user-friendly payment services such as contactless payments using NFC, QR codes or BLE¹, or facilitating transaction initiation by proxies like mobile phone numbers (e.g. using the SEPA Proxy Lookup scheme);

¹ Near Field Communication, Quick Response codes, Bluetooth Light Energy.

- providing an immediate confirmation that the funds have (not) been transferred (confirmation sent to the payer by their PSP) or have been received (confirmation sent to the payee by their PSP);
 - routing to the payee the confirmation received by the payer from their PSP that the funds have been transferred upon demand by the payer (and vice versa);
 - providing an immediate update of the account balance (to the payer and to the payee).
- **Incentivising customers to use instant payments can reduce manual processes on the PSPs' side, offering cost savings.** Instant payments may prompt customers to shift away from solutions which tend to be manual, time-consuming, and expensive for PSPs (e.g. manual processing of cheques). Hence, the more extended usage of instant payments can contribute to reorganising and digitalising internal processes, and thus to reducing operational costs.
- **The increased usage of instant payments can enable better insights into client behaviour compared with cash, which can be used by the customers' PSPs to improve/customise their other financial services as well (data-driven business models).** Instant payments provide more detailed data on customer behaviour, which can be used in other services like more accurate credit scoring, which can ultimately bring additional revenues or cost savings.
- **The additional customer data stemming from the increased usage of instant payments could also improve anti-money laundering (AML) and fraud monitoring.** A higher number of electronic (instant payment) transactions may help PSPs to reduce AML and fraud risks due to the more detailed customer profiles as compared with the use of cash or bearer cheques.
- **Provision of payment solutions to governmental institutions and state administration can help to improve the uptake of instant payments, thus reducing unit costs due to economies of scale.** The increased transaction numbers due to government-related payments will decrease unit costs of transactions and bring PSPs additional revenue streams. Instant payment solutions in the field of government payments may also contribute to changing the behaviour of consumers and businesses alike; for instance, using instant payments in situations which affect a wide scope of users (like tax payments) can be an effective means of customer education as well as supporting changes in organisations and processes, such as increased automation.

Key recommendations

- **Instant payments should be considered a payment method different from traditional credit transfers.** It is important for PSPs to recognise that instant payments are different from traditional credit transfers since they can be used basically in all payment situations, thanks to their core features (real-time processing, 24/7 availability), and may be able to replace other payment methods, such as card payments or direct debits (possibly with additional services like Request to Pay). Instant payments may be used more frequently than traditional credit

transfers, and this should be taken into consideration in both developments (for instance new mobile app functions) and pricing (fees).

- **Transaction fees should not discourage consumers from using instant payments.** Elevated fees compared with “traditional” (non-instant) credit transfers may considerably limit the attractiveness of instant payments, making it more difficult for PSPs to reach profitability through economies of scale. High transaction fees also hinder the strategic goal of the Eurosystem – that of [instant payments becoming the new normal](#). PSPs should therefore work on lowering the direct cost of instant payments. It should also be highlighted that in payment situations where cash or cards are possible alternatives (with no direct fee on transactions from the consumer’s perspective), any transaction fees for consumers can seriously diminish the competitiveness of instant payments. Furthermore, the European Commission [considers that it would be appropriate](#) that charges for both regular and instant credit transfers should be the same – although it notes that there can be additional costs for the provider if features and add-ons, such as chargebacks, are offered with instant payments.
- **PSPs should develop convenient customer front-end solutions and offer a seamless but secure payment experience with instant user notifications and additional functions compared with traditional credit transfers.** PSPs should provide customers with easy-to-use and innovative online and mobile applications (see above). In particular, customers should be able to record and use the beneficiary’s IBAN instantaneously in a front-end application without the need to enter it manually, i.e. by scanning QR codes, using NFC data transmission, etc. PSPs should also utilise the [PSD2](#) application programming interfaces to efficiently and securely share information, process operations and carry out authentication in a frictionless way. PSPs should clearly communicate their transaction limits that apply to outgoing and/or incoming instant payments.
- **AML and fraud monitoring systems should be adapted to support a good customer experience and meet the challenges stemming from the real-time, 24/7 operation of instant payment systems.** Instant payments also bring significant changes in the transaction processing systems of PSPs. In order to minimise fraud levels and the number of false positive AML sanctions screening hits – which may result in rejected transactions – PSPs should further optimise their internal systems, including 24/7 operational real-time monitoring.
- **Customer education is essential to increase adoption of instant payments.** This message is also important for PSPs who participate in any initiatives (for instance the European Payments Initiative) meeting the Eurosystem’s strategic objectives and do not plan to promote instant payments before the project is launched. PSPs should actively communicate the advantages of instant payment acceptance (both physical and remote) not only to consumers, but also to merchants.

2. Payments at the physical and remote point of interaction (POI)

Main benefits

- **Instant payments offer an alternative to card schemes.** Cards are the most frequently used payment instrument for physical POI payments after cash, and the most popular one for remote payments (as shown e.g. by the results of the SPACE survey). Most cross-border payment transactions as well as a significant part of national ones (especially in countries where there are no domestic card schemes and infrastructures) are processed by international (non-European) card networks. Instant payments offer PSPs the possibility to provide payment solutions with a user experience similar to that of cards, but with more favourable pricing for merchants (PSPs are not bound by card scheme rules and so are not obliged to pay significant fees to card schemes).
- **Instant payments at the POI make it possible to recover sizeable development investments.** PSPs have invested heavily in building their internal instant payment systems and interbank clearing infrastructure for such transactions. These will only be recovered if volumes rise significantly and achieve critical mass, thus producing economies of scale and allowing PSPs to be more competitive on the end-user level as a consequence. In that regard, physical and remote POI payments are key market segments in view of the significant volumes at stake and the potential ripple effect.
- **Instant payments are an opportunity to acquire new clients, e.g. small merchants, whose only electronic payment options so far have been limited or costly.** Rather than being a mere addition of one more payment alternative for merchants, instant payments can be a sales argument given their comparative advantages such as immediate availability of incoming funds, payment limit higher than for cards, and the positive impact of offering a modern payment service on the merchants' brand image. For more cost-sensitive smaller merchants, cheaper acquiring solutions can be provided by PSPs, possibly even without the need to have a payment terminal. This offers a chance for market entry even to PSPs which have not provided card acquiring services so far.

Key recommendations:

- **Favourable pricing for users and merchants is especially important in POI use cases.** The above-mentioned general considerations on competitive pricing are perhaps even more important in the case of physical POI payments, where instant payments face competition from cash or card-based solutions with no transaction fees for consumers. Transaction fees for merchants should be competitive compared with cash and card-based solutions to incentivise merchants to accept instant payments, helping them to offer an increased choice of payment instruments to their customers.
- **Convenient customer journeys should be a key part of instant payment developments in POI circumstances.** A smooth user experience is crucial in the case of C2B payments (either physical or remote), where, for instance, card-based solutions are direct competitors,

frequently with a seamless payment experience. Potential developments should target the easy identification of beneficiaries (possibly with proxies), user-friendly design of the solution (minimising the number of necessary clicks, creating straightforward customer journeys), and seamless journeys for strong customer authentication (e.g. the use of biometric identifiers).

- **In the case of physical POI payments, developments are also needed on acquiring devices (possibly using terminals that are already there).** PSPs need to adapt or update point of sale terminals and back-end infrastructure.

3. Payments related to corporate users (B2B, B2C)

Main benefits

The following example messages could be used to illustrate this point:

- **Instant payments help corporates in several fields, therefore PSPs offering such services to businesses can gain comparative advantages.** Instant payments can make cash management for corporates more flexible and offer a number of improvements to existing use cases. The potential to send and receive payments 24/7/365 and the absence of cut-off times may help improve liquidity planning and reduce the need for overdraft facilities for business customers, thus freeing up liquidity to be used elsewhere. Outgoing payments could be made as soon as liquidity flows in from the outside. Regarding the B2C sector, payroll payments could be made reliably on the same calendar day, helping to fulfil legal requirements while at the same time preserving liquidity (e.g. if the normal payout day is a Sunday). The same applies to time-critical payments to the government and other businesses. Also, offering efficient and seamless instant payment solutions may help businesses acquire new customers and business partners. In addition, cross-border functionalities of payments are significant for corporates. Hence, PSPs that offer instant payments to their corporate customers may gain a significant competitive advantage.
- **Instant payments provide PSPs with additional data on business clients, which can be used for the development/optimisation of other services.** The improved transparency of instant payments is useful in a number of ways: first of all, the confirmation messages informing the payer of the successful and final settlement of the payment could be used to automate internal processes (e.g. for reconciliation). Second, if instant payments become the new normal for business credit transfers, they could help PSPs show a real-time picture of the liquidity situation of business customers, therefore helping with internal credit scoring processes and potentially reducing risks. This could open up new business cases as well, e.g. real-time credit payouts.
- **Instant payments may be a crucial step towards the digitalisation of the supply chains.** Instant payments could enable cashless delivery-versus-payment solutions along the supply chain, making the liquidity immediately available to the supplier and giving the payer security about the finality of the transaction. They would also offer a real-time payment instrument to match the real-time delivery of digital goods (e.g. software or other digital services).

Key recommendations

- **PSPs should develop front-end solutions and offer corporate clients convenient ways to initiate instant payments, taking into consideration varying corporate needs.** Corporate payments are a vital part of the instant payment ecosystem when aiming to achieve a holistic, multichannel experience. For consumers, it may be hard to accept that they can make payments to businesses in real time, but only receive payments from them via the traditional infrastructure channels. For (small) enterprises, there may be expectations that they can use the payment methods they are accustomed to from private use in the business context as well. Corporate clients usually have special front ends, sometimes integrated into the accounting and billing systems of businesses. PSPs should develop these interfaces too (besides consumer front ends) to enable businesses to initiate instant payment transactions conveniently.
- **PSPs may increase the transaction value limit for the processing of instant payment transactions to support B2B use cases.** Currently the maximum transaction amount in the SCT Inst scheme is set at €100,000, but transactions with higher amounts can also be processed on a voluntary basis, if there are agreements between individual PSPs or communities. PSPs willing to offer corporate clients the processing of transactions beyond the current SCT Inst transaction value limit may choose to opt for such agreements, as B2B transactions can frequently exceed this threshold.

4. Payments using Request to Pay (RTP) services

Main benefits

- **RTP services can generate a significant additional volume of instant payment transactions.** Since RTP can be used in various situations, it can contribute effectively to the prevalence of instant payments, which can provide PSPs with additional revenue streams and data on clients.
- **The provision of RTP services itself can be a new service type for PSPs, offering additional benefits.** The processing of RTP messages, for instance when sending out large numbers of RTPs on behalf of businesses (utility service providers, insurance companies, etc.), can be a new type of service provided by PSPs, generating extra revenues. For these clients RTP can also offer smoother reconciliation of the incoming payments, which is often an issue with traditional credit transfers, where payers frequently have to enter information like invoice numbers manually, which they may fail to do or do incorrectly.
- **RTP-based payment solutions can help PSPs to further reduce their dependencies on cards and enhance competition.** RTP can be widely used in POI payment situations (either face-to-face or remotely), thus helping PSPs to develop payment solutions which are not based

on the service of card companies and eliminating the need to pay card processing or card scheme fees.

- **PSPs can use the RTP-based service to target customers who may not like the automated debiting mechanism of direct debits.** RTP offers full control of payments, while still providing a smooth transaction initiation. This may be preferred by certain PSP clients who have not used direct debits due to concerns over automatic debiting, but who are nevertheless looking for a convenient electronic payment method in such situations.

Key recommendations

- **In order to ensure cross-border interoperability, PSPs should develop their services on the basis of the European Payments Council's SEPA RTP (SRTP) rulebook or migrate their existing RTP solutions to the scheme.** To ensure the largest possible coverage of the RTP service, and hence the biggest business opportunity for PSPs, RTP messages should be standardised. The SRTP rulebook of the European Payments Council serves this goal, and PSPs should carry out their developments on its basis.
- **PSPs should develop front-end solutions, incorporating the function of sending and receiving SRTP messages.** The advantages of the SRTP service can be exploited to the largest extent if the option to send and receive SRTP messages is available to all (consumer and corporate) clients. Smaller merchants who need simpler acquiring solutions can be targeted with specialised mobile applications, in which the sending of SRTP messages should be built in to facilitate the convenient transaction initiation.