

Instant Payments in the Netherlands  
and the status of SEPA in Europe  
Conference on Payments and Market  
Infrastructures in Ohrid, North Macedonia  
Michiel van Doeveren, 3-5 June 2019

DeNederlandscheBank

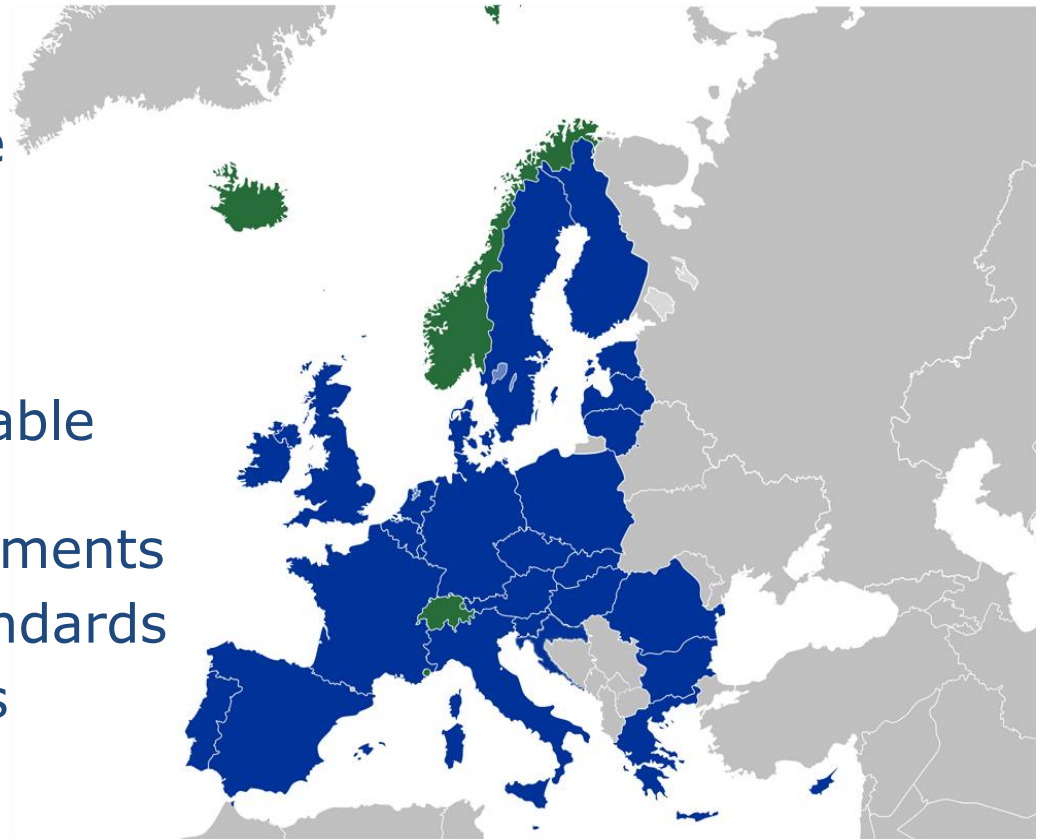
EUROSYSTEEM



# SEPA: an integrated euro retail payments market



- 36 SEPA-countries
- 525 million citizens
- 4,500 payment service providers
- Single set of payment instruments in Euro
- Efficient and interoperable infrastructures for the processing of euro payments
- Common technical standards
- Harmonised legal basis



# Instant Payments

## IP initiatives around the world

### Western Europe

- Sweden
- United Kingdom
- Finland
- Denmark
- Norway
- Ireland
- Italy

### Central & Latin America

- Brazil
- Chile
- Mexico
- Colombia

### Africa

- Nigeria
- South Africa

### Central & Eastern Europe

- Poland
- Switzerland

### Asia Pacific

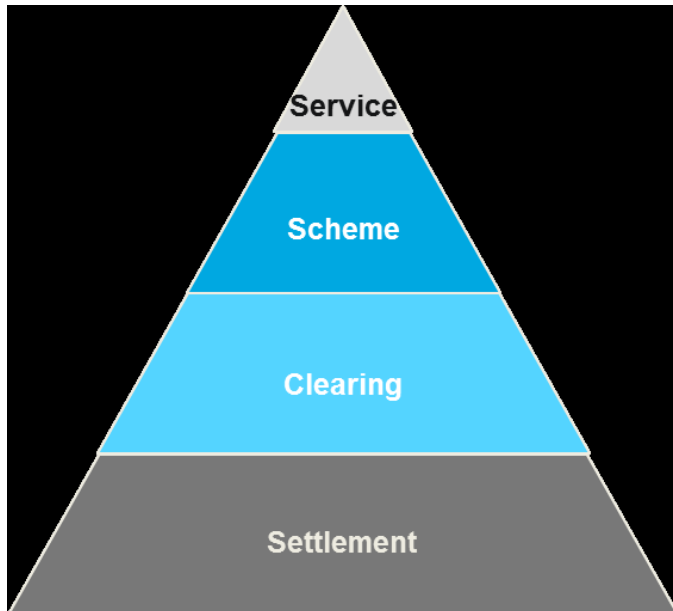
- India
- Japan
- Indonesia
- Singapore
- S-Korea
- Taiwan
- Australia
- Hongkong

### Middle-East

- Turkey
- Saudi Arabia



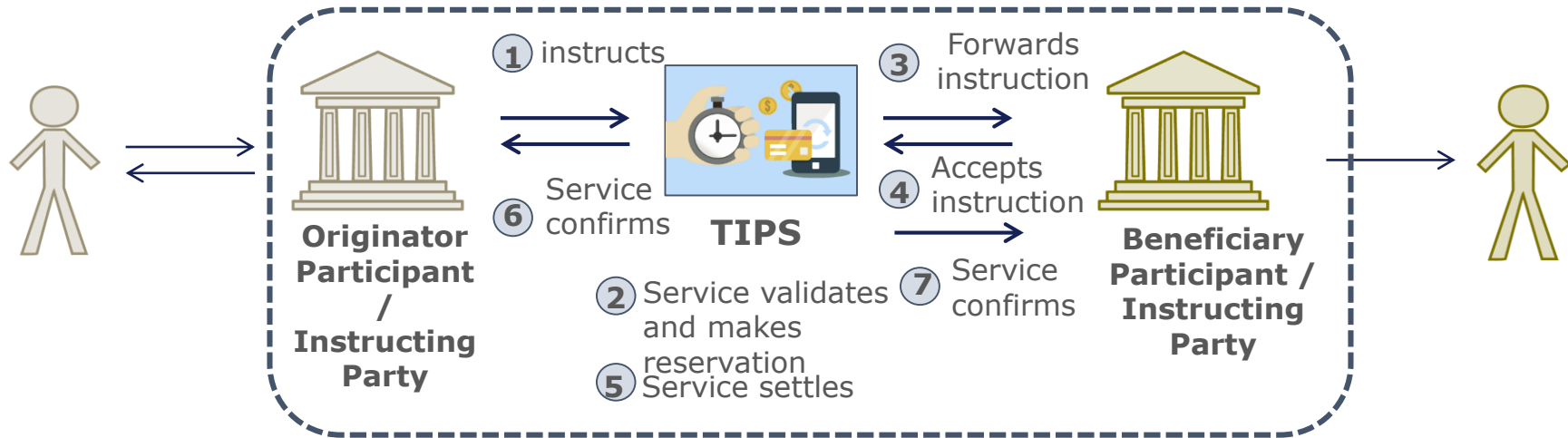
# Instant Payments EU status



1. Scheme layer:  
SCT Inst
2. Clearing layer:  
interoperability
3. Settlement layer:  
risk mitigation

# (TARGET) Instant (Payment) Settlement

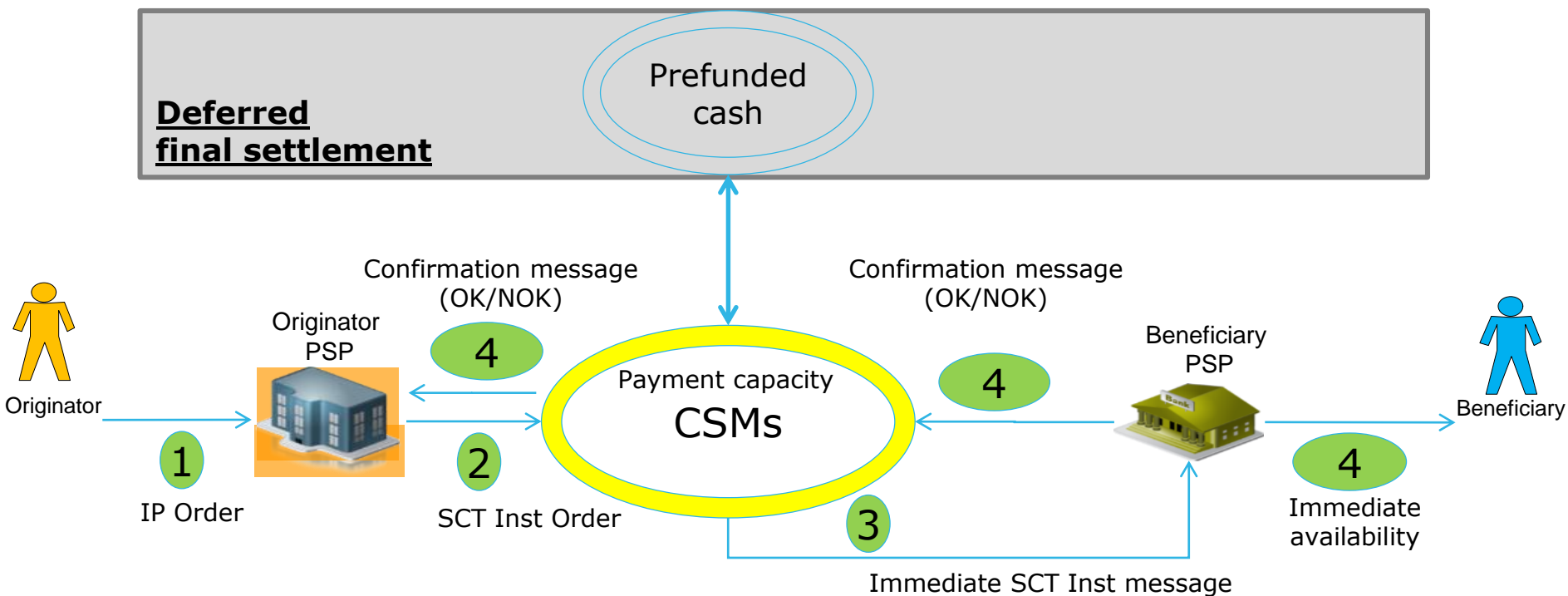
## Process flow



1. TIPS receives an instant payments instruction
2. TIPS validates and reserves the amount (conditional settlement)
3. TIPS forwards the instruction for acceptance to the beneficiary participant or the party acting on its behalf
4. TIPS receives a positive confirmation
5. TIPS settles the payment
6. TIPS confirms the settlement to originator participant or the party acting on its behalf
7. TIPS confirms the settlement to beneficiary participant or the party acting on its behalf

# Instant Payments via clearing

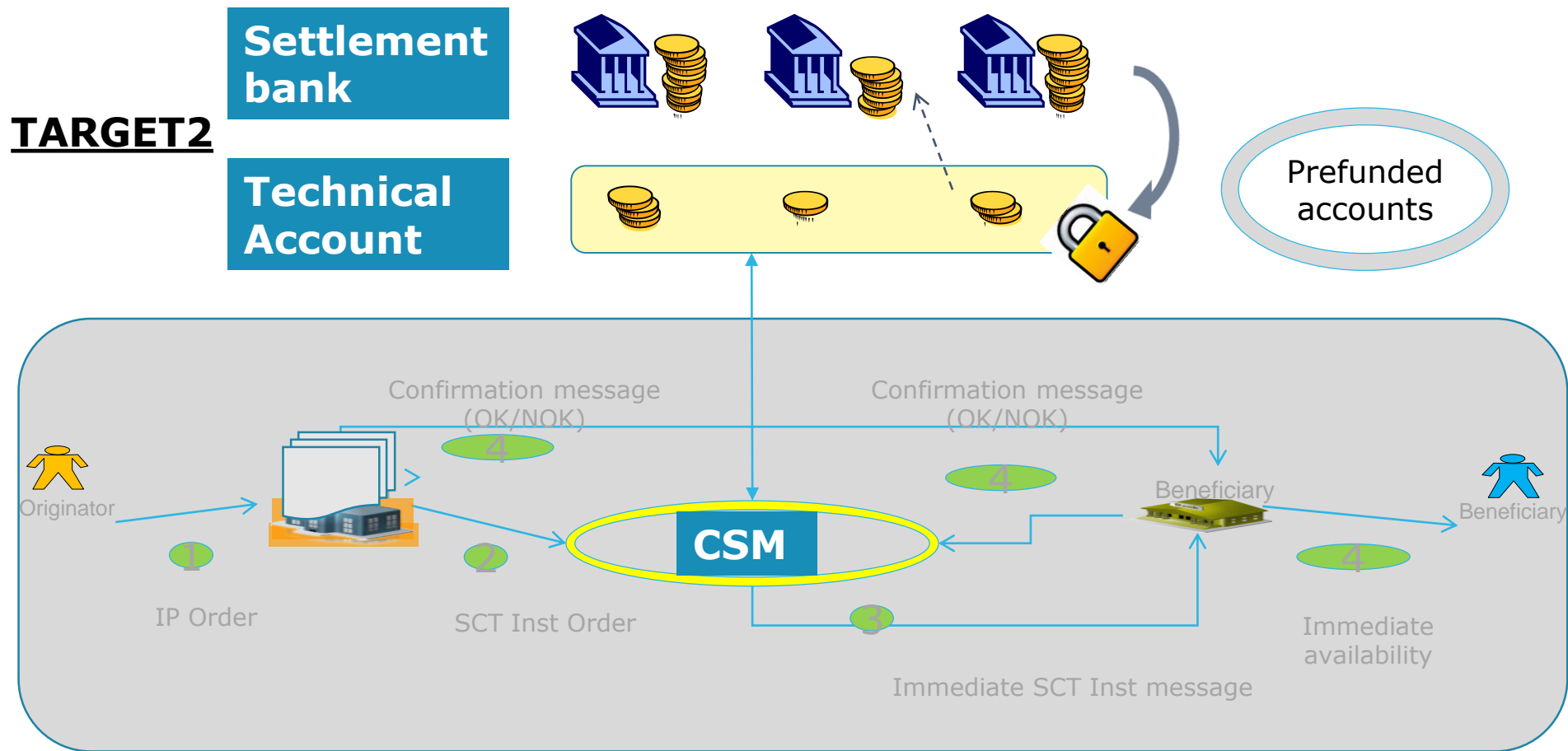
## Process Flow





# Instant Payments: instant clearing

## Process Flow using ASI6 - RT



# TARGET Instant Payment Settlement

## Principles: foundation of the service



Same **participation criteria** as TARGET2



Instant payments settlement in **Central Bank Money**



**24/7/365**  
operating hours



Operated on a **full cost-recovery** basis



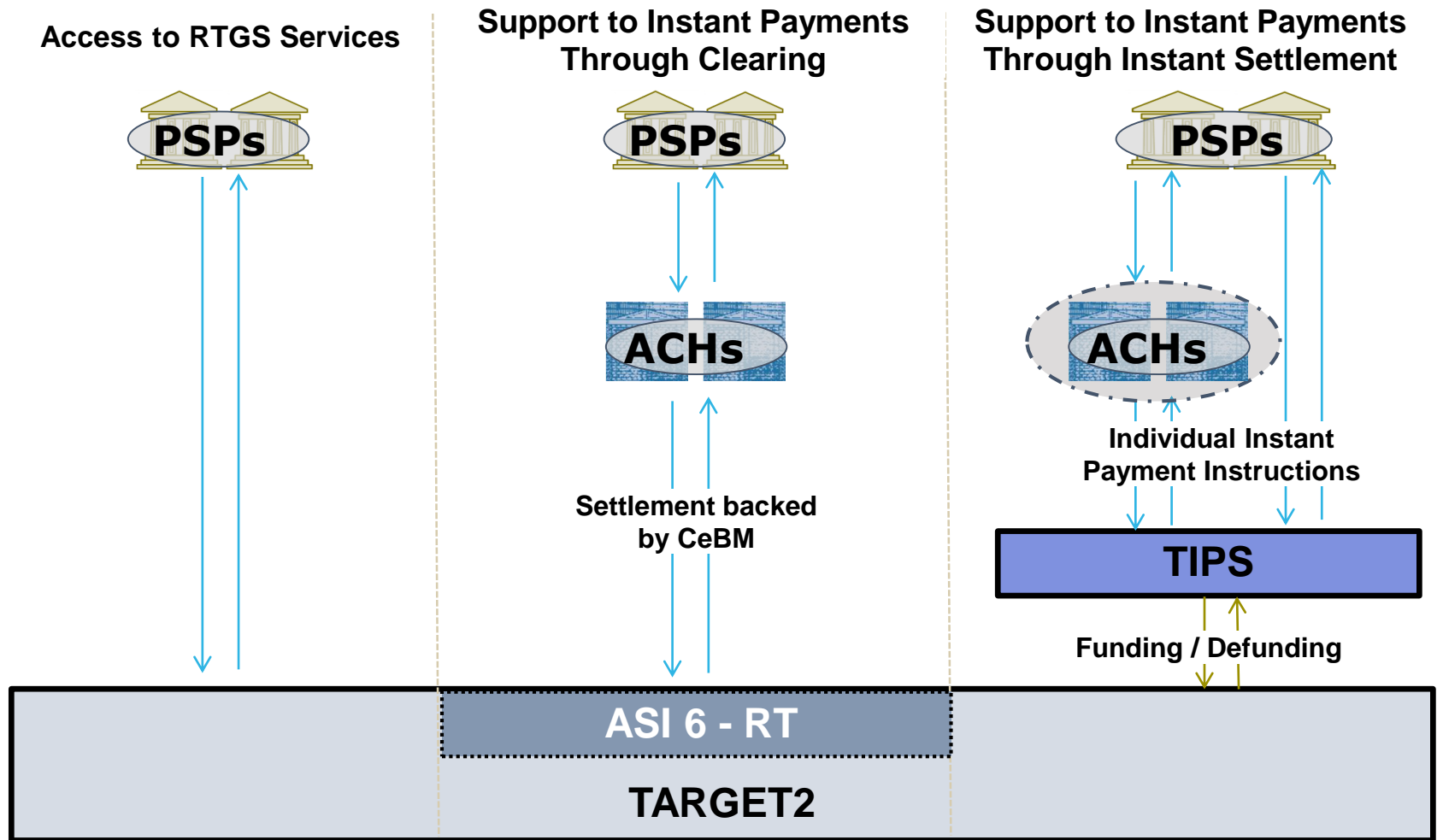
Supports participants to comply with **SCT Inst** scheme



**Multi-currency**  
technical capability



# Co-existence of payment services



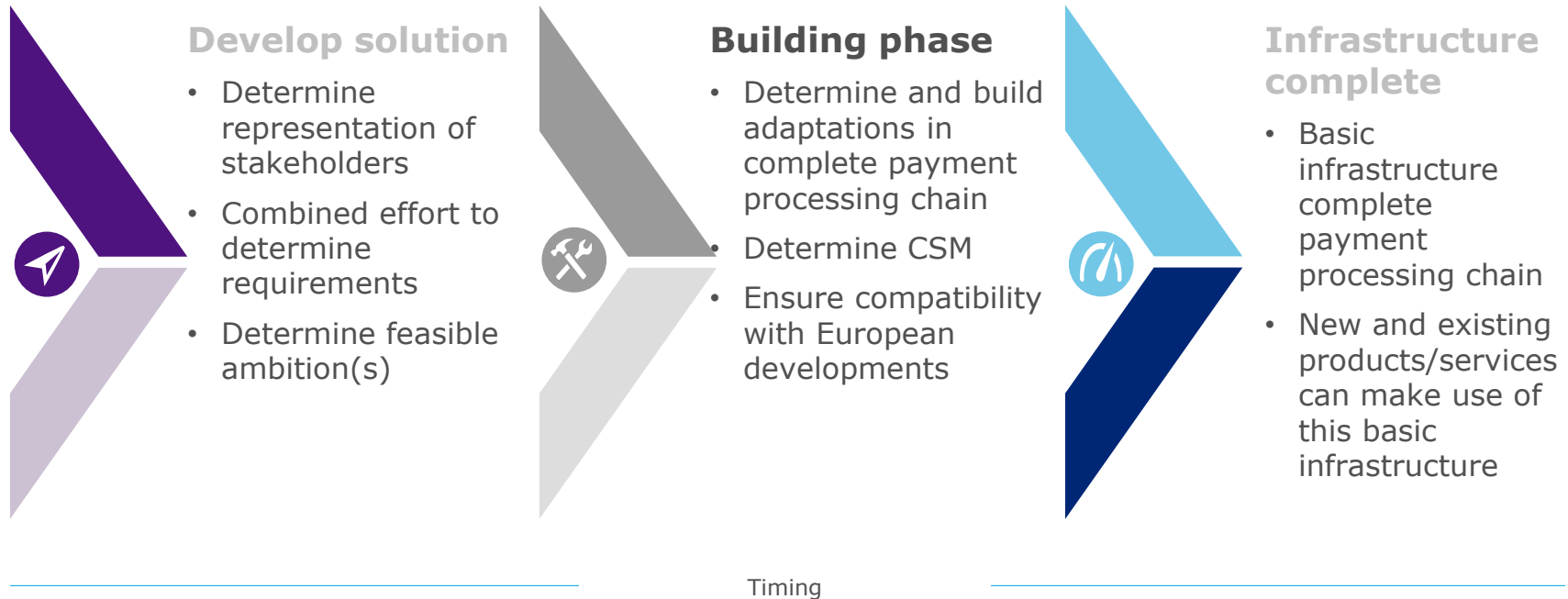
# Instant Payments

# Dutch project

Criterion	Description
National ambition	<ul style="list-style-type: none"><li>The Dutch banking community formulated the following ambitions: (1) availability of funds within 5 seconds; (2) all year 7 days a week availability and (3) implementation within four years (so no later than 2019).</li></ul>
SEPA standards	<ul style="list-style-type: none"><li>The model must be able to process all (chosen) products via SEPA standards, fitting within the standards as described in the SEPA Rulebooks.</li></ul>
Safe, reliable, future proof	<ul style="list-style-type: none"><li>The model must be safe and reliable. Moreover, it must be secured that the model can even be used after 2019, e.g. scalable to specific volumes.</li></ul>
Level playing field	<ul style="list-style-type: none"><li>Every entity, fulfilling separately to be determined access criteria,, must be able to settle with comparable accessibility via this model.</li></ul>
European connection	<ul style="list-style-type: none"><li>The settlement model must be able to connect to or replaceable by a model that will be developed on a European level in due course.</li></ul>
Multiple clearing processors possible	<ul style="list-style-type: none"><li>The solution must be able to work with multiple clearing processors.</li></ul>
Development and running costs (including liquidity costs)	<ul style="list-style-type: none"><li>As far as possible a quantitative estimation of costs for development and exploitation of the model. Specific attention for any costs related to the provision of liquidity.</li></ul>
Settlement risk	<ul style="list-style-type: none"><li>A qualitative estimation of any settlement risk present (credit and/or liquidity risk) including the possibilities to mitigate or even eliminating those risks.</li></ul>

# Instant Payments

# Dutch project



# Instant payments: the new normal

SEPA: new optional scheme SCT<sup>inst</sup>, from May 2019 in Netherlands: future basis for all retail payments, “the new normal”, including batch transactions

Three main elements of Instant Payments:

1. Always Open: 24/7/356
  - No banking holidays anymore
2. Instant Processing
  - Within 5 seconds in NL, 10 in Europe
3. Acknowledged
  - The amount has been credited to the payee



This allows instant payments to be used in areas where credit transfers have not been applicable before, such as at the point of sale.



# Mobile Payments

Towards a better customer journey:

- Paying somebody using a mobile phone number rather than the IBAN
- Using SEPA credit transfers
- And processing near-instant

But without the new instant payment infrastructure and IBAN lookup services



venmo

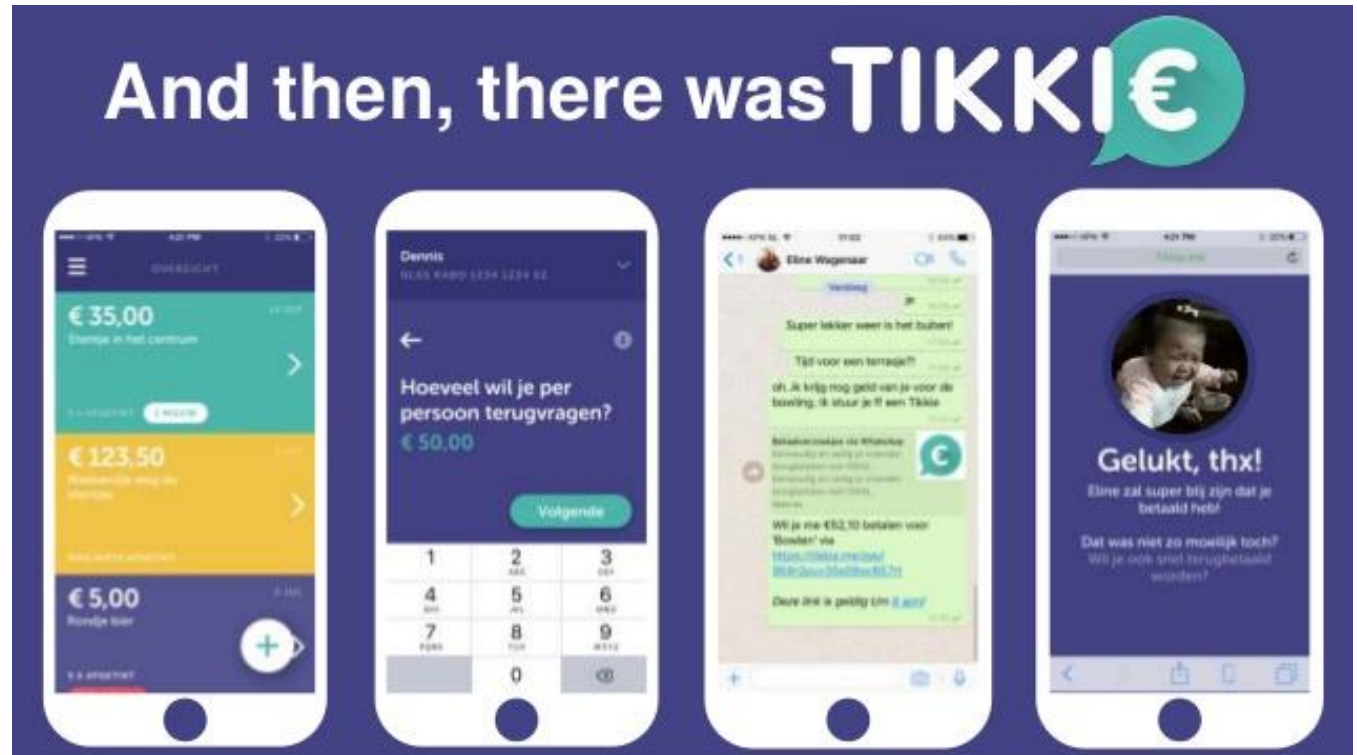
Paym

swish

v:pps

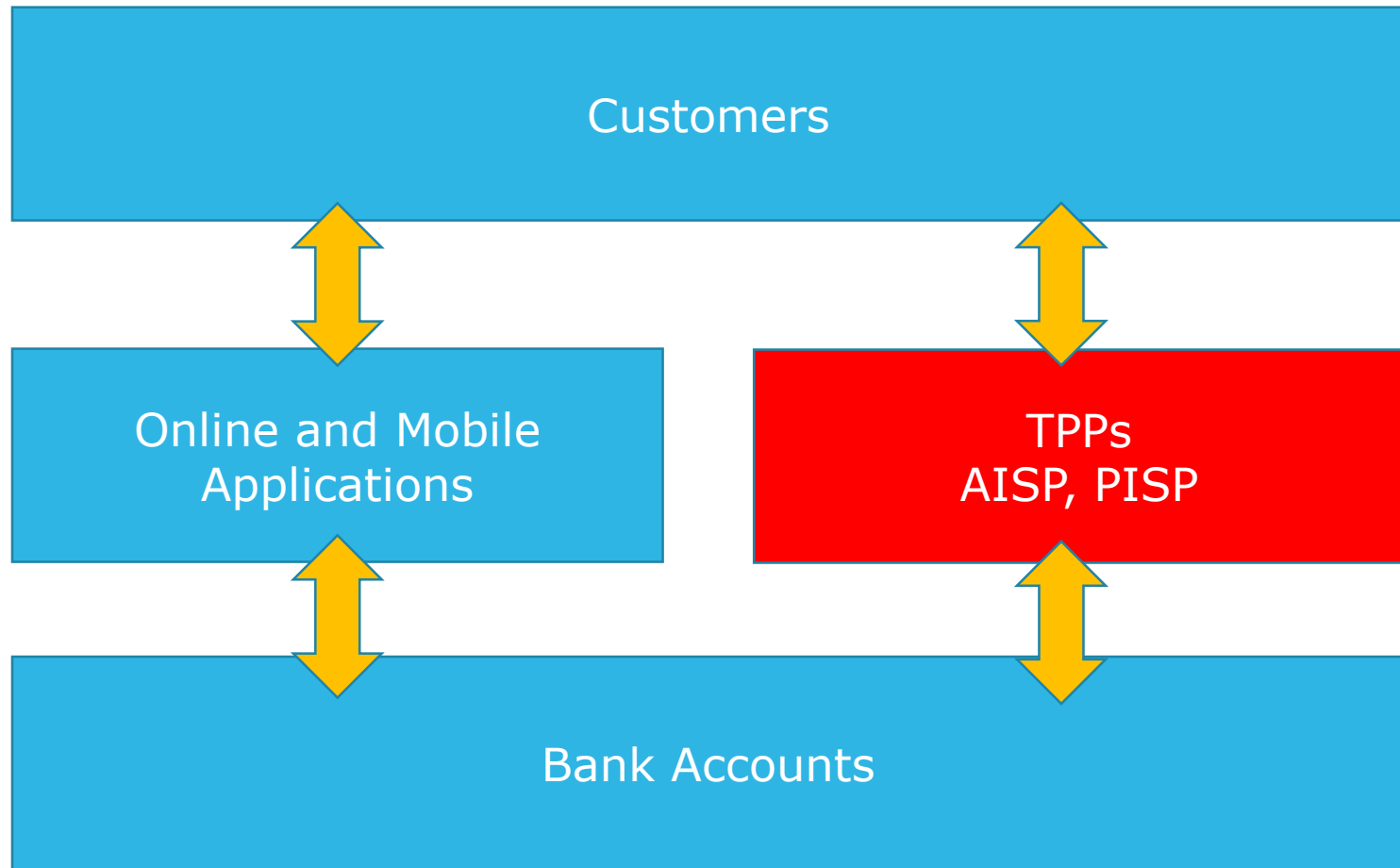


# Tikkie



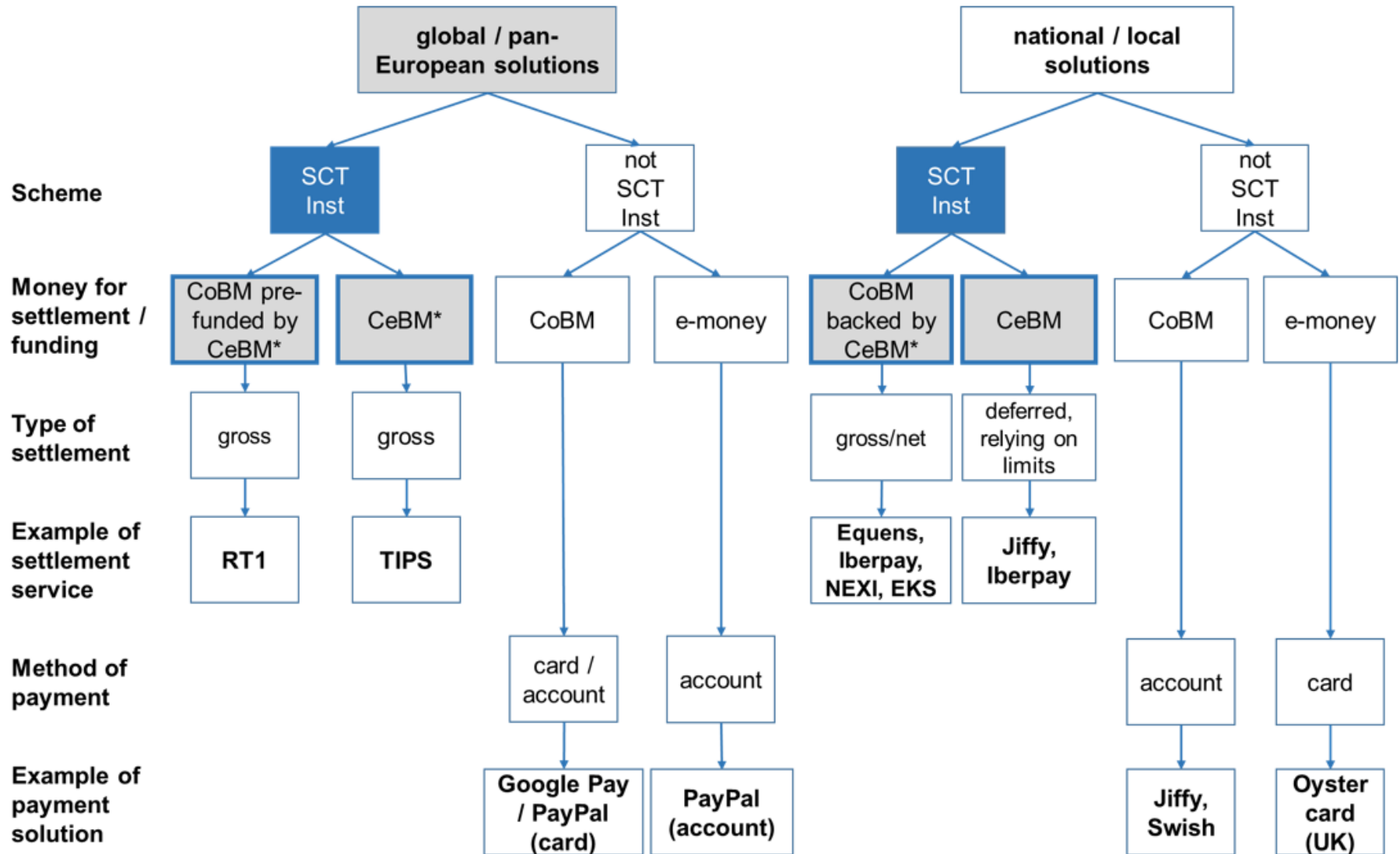
- ABN AMRO, 2016
- **3 million users**
- Free to use for anyone with a Dutch payment account and a smartphone
- 87% of the Tikkies are reimbursed within a day
- 10% receive the bill within one minute after sending a Tikkie

# PSD2 defines a new market model, also for instant payments





# Instant payments infrastructures in Europe



CeBM: Central bank money

CoBM: Commercial bank money

\*Settlement in RT1, Equens, Iberpay, NEXI and EKS takes place in ACH's books but is backed one-to-one by CeBM.

# Liquidity management

- Payment flows outside office hours
- Liquidity via pre-funding or collateral
  - Via CSMs: pre-funding
  - TIPS: both



# Two SEPA-reports of the ECB (published on [www.ecb.int](http://www.ecb.int))



- SEPA Migration – Impact Assessment, February 2019



## SEPA Migration

### Impact Assessment

#### Executive Summary

The development of the Single Euro Payments Area (SEPA) and the migration to the SEPA credit transfer and direct debit schemes (SEPA migration) were decisive steps for the integration of electronic retail payments in Europe. SEPA was fully promoted and supported by the European System of Central Banks (ESCB). The European Commission provided the cornerstone by establishing a European legislative framework that set the ground for common rules on retail payment services and instruments.

The execution of credit transfers and direct debits in euro is now harmonised. Cross-border use of both the SEPA credit transfer and SEPA direct debit schemes is growing year on year and showing no sign of slowing. SEPA migration has provided the foundations for facilitating an interoperable, efficient and competitive payment network in the European Union.

The migration to the SEPA schemes was a long and challenging process, requiring the active involvement of all stakeholders, namely consumers, payment services providers (PSPs), companies, public administrations and market infrastructures.

Now that SEPA is a reality for credit transfers and direct debits, it is time to evaluate the SEPA migration process and its impact from the different stakeholders' perspectives. The ESCB therefore prepared qualitative questionnaires to gather the views of the relevant stakeholders in each national market. The objective was to gain an understanding of the market assessment of the SEPA migration process and its current view on the European retail payments landscape.

In general, stakeholders have a positive overall assessment of the outcome of SEPA migration, owing to faster and cheaper cross-border credit transfers, particularly for euro area counterparties. Increases in competition and efficiency were also identified as benefits of SEPA. However, despite such benefits, the implementation of the SEPA schemes proved to be a considerable challenge for stakeholders. Some considered SEPA migration to be expensive, requiring significant changes to IT systems and business processes.

Although SEPA migration was successful overall, post-migration challenges identified by stakeholders have been addressed by the Euro Retail Payments Board (ERPB) (for a brief description, see Section 4).

Overall, the migration to SEPA has led to innovation in payment services in the European Union and the creation of pan-European PSPs offering competitive services. It has facilitated the move towards global standards (ISO 20022) for

- Card payments in Europe, April 2019



# ECB SEPA Migration - Impact Assessment

## February 2019

- ❑ The development of the Single Euro Payments Area (SEPA) and the migration to the SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD) were decisive steps for the integration of electronic retail payments in Europe.
- ❑ In general stakeholders have a positive overall assessment of the outcome of SEPA-migration.
- ❑ Post-migration challenges: eliminating IBAN-discrimination, interoperable electronic mandate solutions for SDD, SDD R-transaction fees and more structured remittance information (ERPb).
- ❑ SEPA is not yet finalised: it is a work in progress: innovations, like instant payments and further dynamics in an integrated European market.

# ECB Card payments in Europe

- ❑ SEPA is now a reality for over 500 million citizens using uniform SEPA Credit Transfers and SEPA Direct Debits
- ❑ In contrast, card payments still lack the same degree of market integration and harmonisation of business practices and rules, as well as technical standards
- ❑ The Eurosystem decided to analyse the current state of card payments in Europe
- ❑ This reports includes the view of a market consultation conducted in late 2017.

# SEPA for Cards

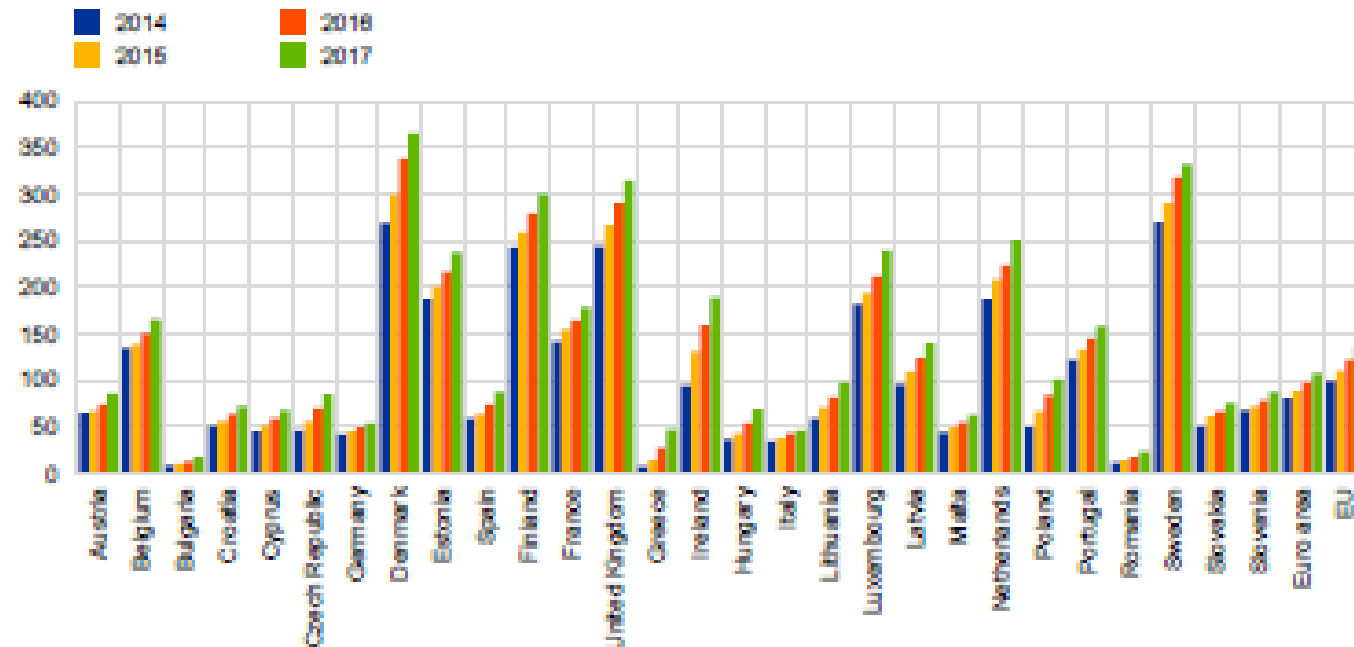
- ❑ Ideal situation: Any card/device at any terminal
- ❑ Impediments:
  - A lack of interoperability between cards and terminals
  - Limitations on merchants accepting certain cards
  - Cardholders being confused by different payment experiences across Europe



# Card payments in Europe per inhabitant

Chart 1

Number of card payments per inhabitant (2014-2017)



Source: ECB Statistical Data Warehouse.

Note: The chart shows card payments with cards issued by EU-resident payment service providers, except cards with an e-money function only.

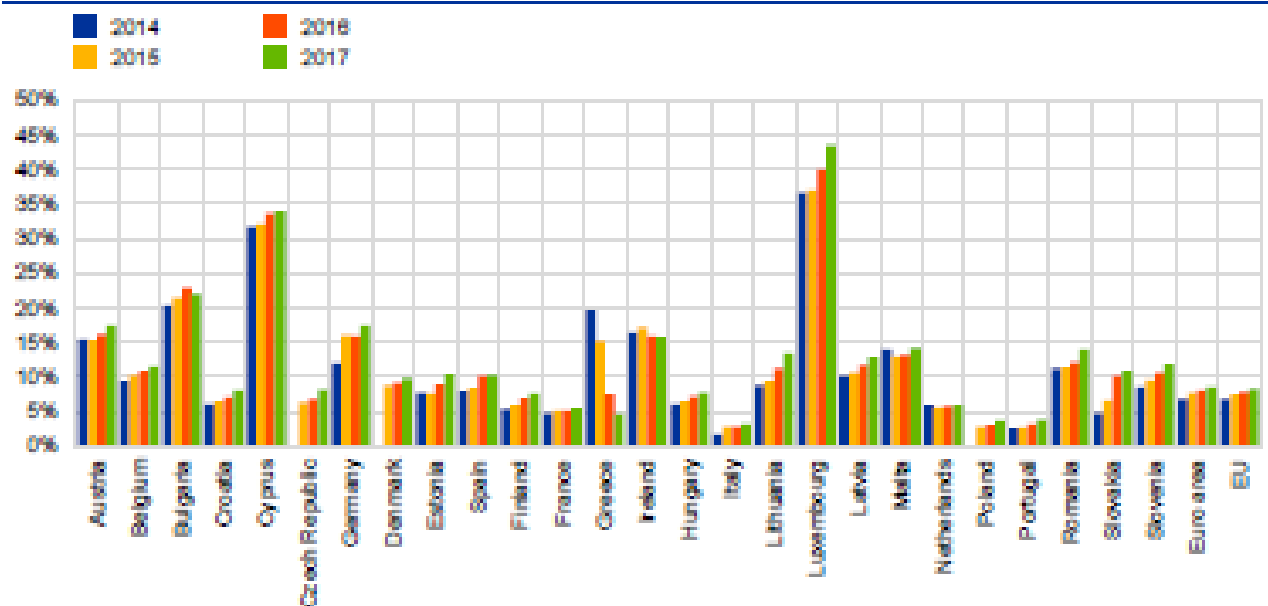




# Cross-border card payments in Europe

Chart 2

Cross-border card payments as a percentage of total card payments at point-of-sale (POS) terminals (2014-2017)



Source: ECB Statistical Data Warehouse.

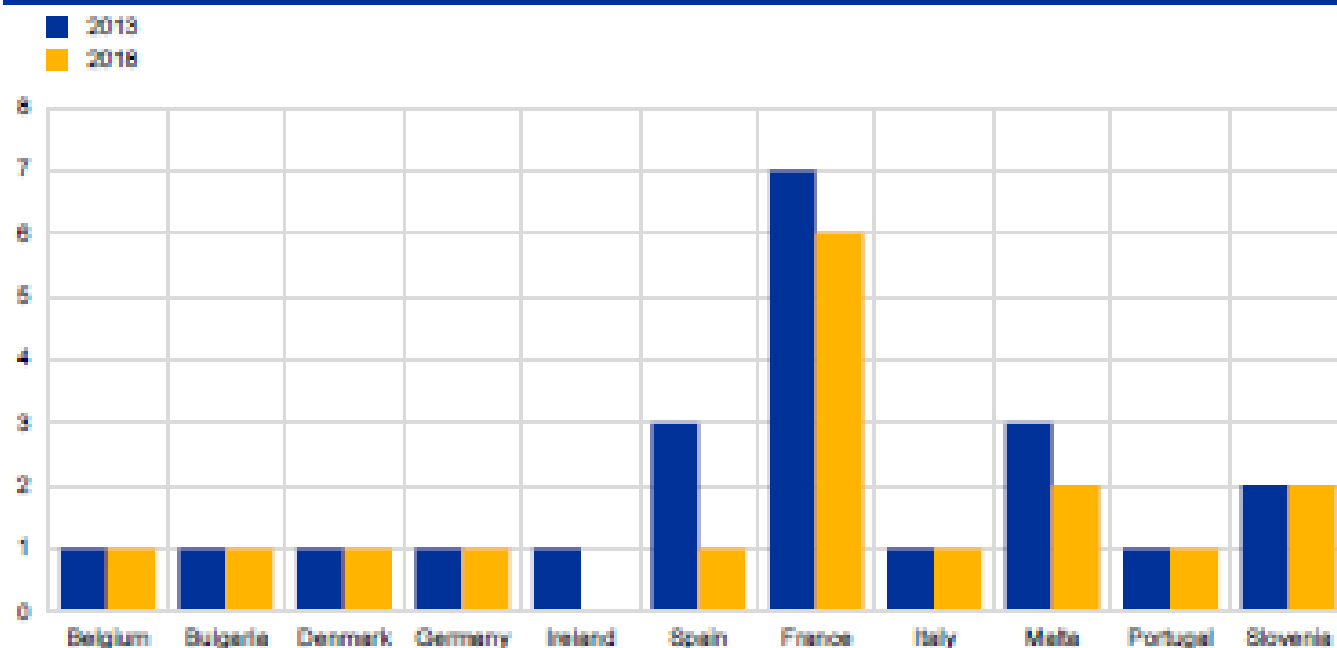
Notes: The chart shows card payments with cards issued by EU-resident payment service providers, except cards with an e-money function only. Sweden and the United Kingdom are excluded, as data on cross-border card transactions for these two countries are not available.



# Reachability of European card schemes (1)

Chart 3

Number of national card schemes active in individual Member States in 2013 and 2018



Source: ECB.

Note: Member States with no national schemes in 2013 or 2018 are not included in the chart.

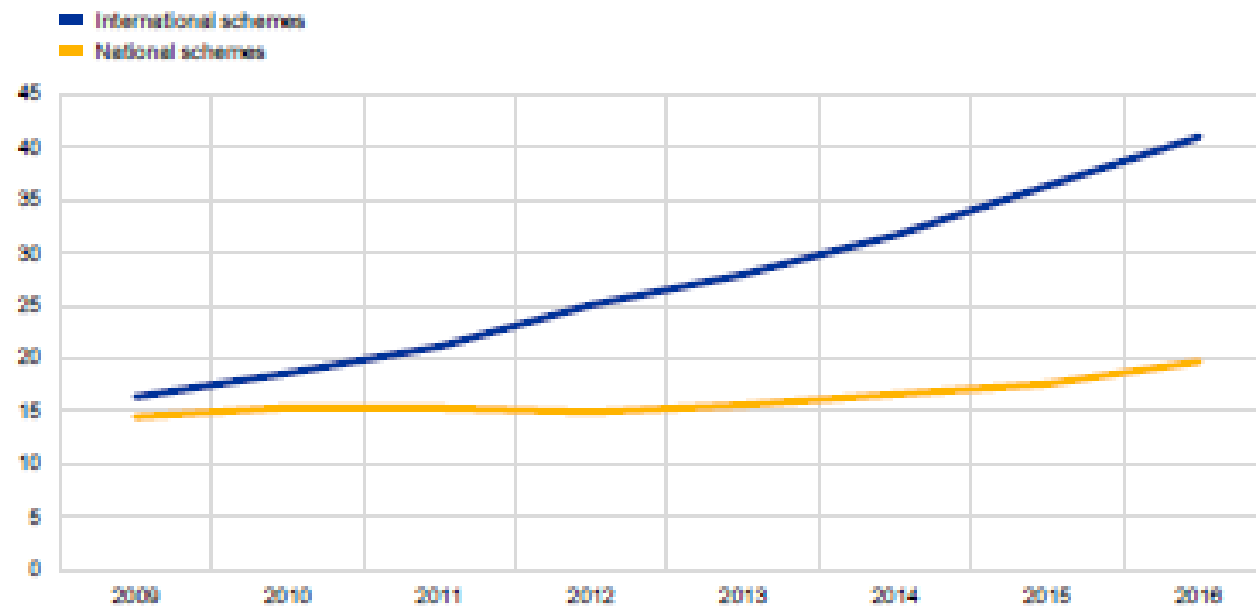


# Reachability of European card schemes (2)

Chart 4

Number of transactions made with national and international card schemes on payment cards issued in the EU

(billions of transactions)



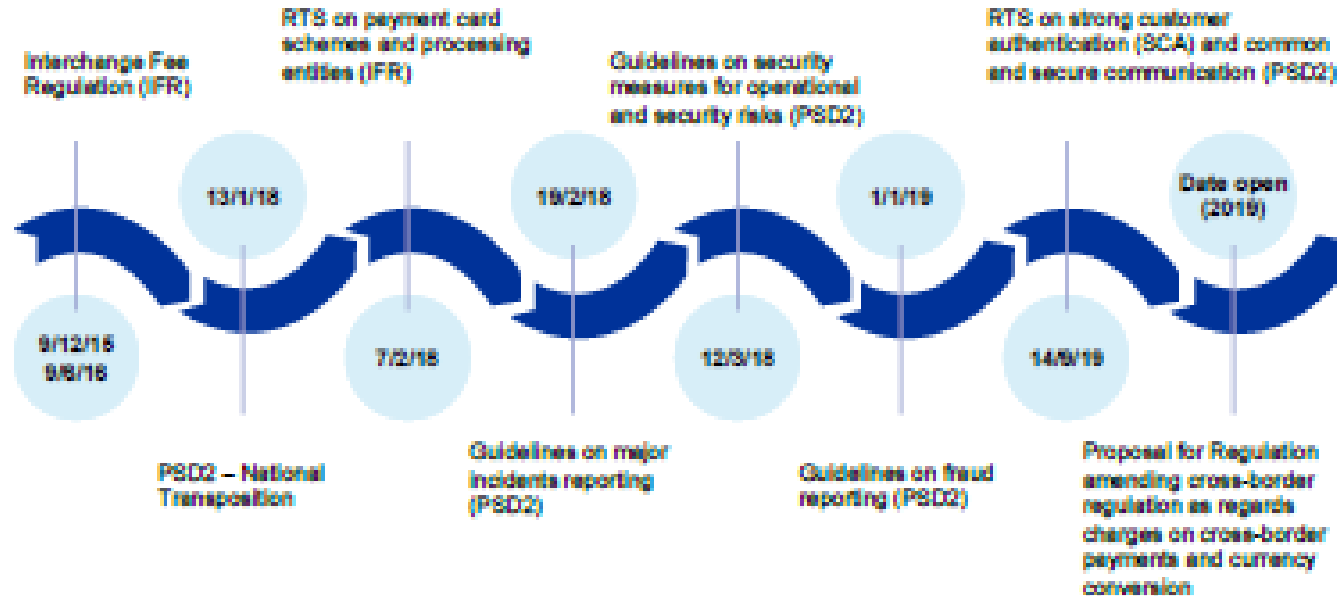
Source: Reporting by card schemes for oversight purposes to the ECB.



# Current and legal and regulatory framework

## Chart 5

### Selected changes in the European legal and regulatory framework impacting cards



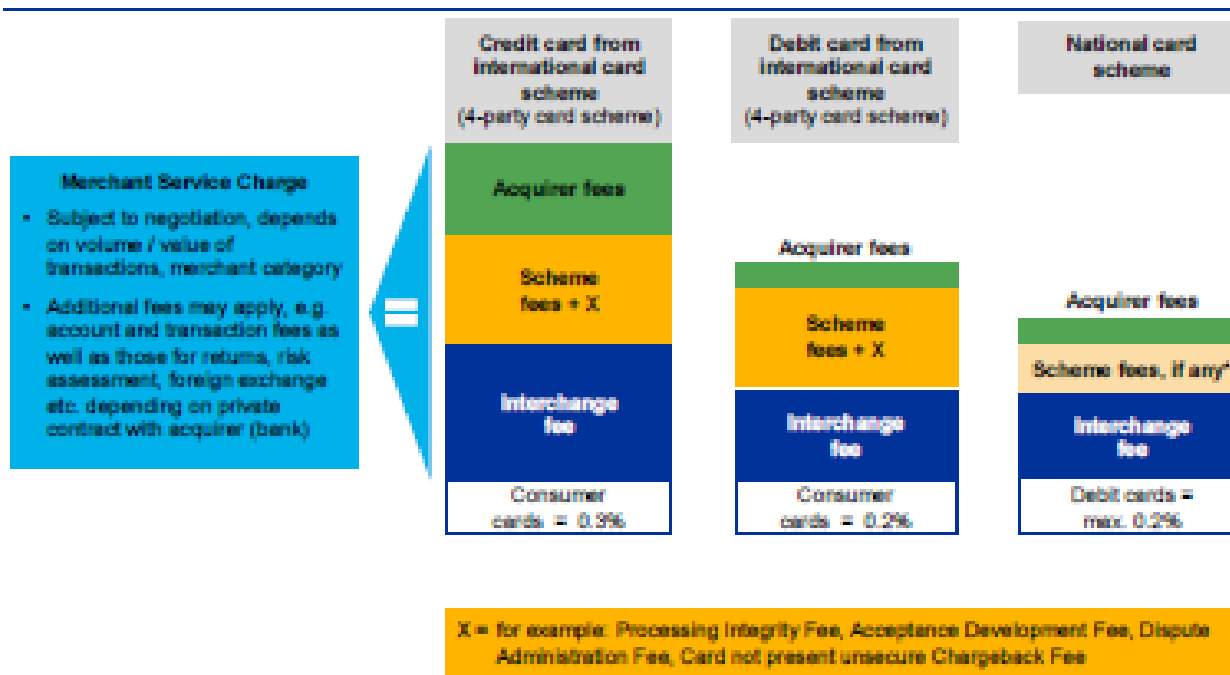
Source: ECB.



# Merchant services charges

## Chart 6

Stylised overview of components of merchant service charges



\* Not all national card schemes charge scheme fees.

Source: ECB.



# Innovation in the European cards market



- Contactless payments
  - Tokenisation
  - Instant Payments
- 
- Main drivers of innovation in the European cards market
    - Business priorities
    - Security and fraud risk management
    - Efficiency and customer experience
    - Increasing competition from non-card payment instruments (e.g. instant payments)
    - Mobile wallets using cards as underlying instrument

# Conclusions



- Card payments are an efficient and convenient way of making retail payments
- Card payments are the most widely used and the fastest-growing electronic payment instrument in Europe
- Interlinking of national card schemes versus co-branding
- Risk of fragmentation
- Cooperation between incumbents and new market players could pave the way in SEPA for cards.



# Any questions?

