

Status Update on SCT Inst Scheme

November 2020 ERPB Meeting



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Approved

1. Background

At its 06 July 2020 meeting the ERPB notably:

- took note of the EPC update on the implementation of and adherence to the SCT Inst scheme;
- took note of the ECB update on the first results from the Eurosystem's monitoring of SCT Inst take-up;
- reiterated its call to the supply side of the industry to implement instant payments, ensure pan-European reach as soon as possible, and support end-user take-up, including by providing safe and efficient end-user solutions at a competitive price with the capacity to achieve pan-European reach;

The present note updates the ERPB on the actions undertaken by the EPC since the last ERPB meeting and on next steps.

2. Adherence status and compliance criteria from the SEPA Regulation

A. Across SEPA

As of mid-November 2020, there are 2.287 registered SCT Inst scheme participants representing a share of 57 percent of all SCT adherents (i.e. 3.990) in **all** SEPA countries (and 64% for the EU only). It must be noted that within the 57 percent of Payment Service Providers (PSPs) that already joined the scheme, SCT Inst generally enumerates those having the most significant payment volumes and representing the vast majority of payment accounts.

The current list of SCT Inst scheme participants can be consulted on the [Register of Participants webpage](#). 33 CSM organisations (including national central banks under TIPS¹) have already disclosed their intention to be SCT Inst scheme compliant. These CSMs are listed on the [Clearing and Settlement Mechanisms webpage](#).

B. Within the EU

Article 4 of the SEPA Regulation² stipulates that euro-denominated payment schemes must ensure that the PSPs being a participant to such scheme must a) constitute a majority of PSPs within the European Union and b) represent a majority of PSPs within a majority of EU Member States.

This article allows the EPC to apply for a temporary exemption for these two conditions for a maximum of three years. The SCT Inst scheme was officially launched on 21 November 2017 and has formally been granted this temporary exemption until 21 November 2020.

¹ Target Instant Payment Settlement

² Regulation (EU) 260/2012

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The table below shows the SCT Inst scheme adherence status compared to the SCT scheme adherence in the EU as of mid-November 2020. Based on these adherence figures, only the first condition of the SEPA Regulation is fully met. Just six countries currently meet the second condition.

Country	SCT Inst	SCT	Percentage of SCT Inst scheme participants vs. SCT scheme participants
Euro	2.256	3.344	67%
AUSTRIA	433	476	91%
BELGIUM	22	50	44%
CYPRUS	1	18	6%
ESTONIA	6	11	55%
FINLAND	5	8	63%
FRANCE	123	267	46%
GERMANY	1.251	1.436	87%
GREECE		24	0%
IRELAND	2	207	1%
ITALY	256	426	60%
LATVIA	6	18	33%
LITHUANIA	24	81	30%
LUXEMBOURG	3	66	5%
MALTA	5	30	17%
NETHERLANDS	9	38	24%
PORTUGAL	16	36	44%
SLOVAKIA		18	0%
SLOVENIA	5	16	31%
SPAIN	89	118	75%
Non-Euro	8	204	4%
BULGARIA	3	24	13%
CROATIA		21	0%
CZECH REPUBLIC		21	0%
DENMARK	1	52	2%
HUNGARY		26	0%
POLAND	1	27	4%
ROMANIA		23	0%
SWEDEN	3	10	30%
Grand Total	2.264	3.548	64%

On the other hand, when measured in terms of reachable payment accounts - which is a more meaningful criterion from a user or market perspective - the current SCT Inst scheme penetration is much broader across the euro area. There are already twelve³ euro area countries with a substantial majority of payment accounts reachable for SCT Inst.

Despite these encouraging developments, the EPC considers that the following elements may have influenced some SCT scheme participants to postpone their adherence to the SCT Inst scheme beyond November 2020:

³ Austria, Belgium, Estonia, Finland, France, Germany, Italy, Latvia, Lithuania, the Netherlands, Portugal and Spain.

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- The lack of interoperability between Clearing and Settlement Mechanisms (CSMs) creates a clear obstacle for the take-up of the SCT Inst scheme and to benefit from its potential across the EU.

Today, to be fully reachable not only for national but also cross-border SCT Inst transactions, the existing SCT Inst scheme participants must connect to several CSMs, national and/or European, and set aside multiple liquidity pools. This is inefficient and costly.

The EPC therefore welcomes the Eurosystem's initiative to facilitate the implementation of a 'single CSM-connection' model by mid-December 2021, providing PSPs with an efficient way to get full SEPA reach including the possibility to rely on a single liquidity pool, thereby allowing the fulfilment of another key SEPA Regulation requirement.

- A non-negligible number of SCT scheme participants may not yet see a business case for a rapid move to SCT Inst compared to the significant investment and operational changes they would have to do.

For some SCT participants, payment services are not a core business and there is no business case to invest in and operate SCT Inst. They serve specific market niches, service a low number of payment accounts, or process a very low number of payments. When their customers wish to send or receive urgent euro payments, Target2 or EURO1 meets their needs.

Other PSPs have just entered the payment services industry (e.g., reference is made to a vibrant rise in the number of payment institutions and electronic money institutions). These new entrants mostly decide to offer in a first phase only those payment instruments with the widest possible reach across SEPA (being SCT among others). In a later phase, these SCT participants may consider offering SCT Inst services.

- The outbreak of the COVID-19 across SEPA delaying the SCT Inst scheme roll-out plans at some SCT scheme participants.

Even though the SCT Inst scheme has not met all formal conditions set by the SEPA Regulation within the exemption period, the EPC will continue to actively promote, monitor, review and communicate about SCT Inst adherence across the EU beyond November 2020

- with the aim of meeting the coverage requirements of the SEPA Regulation as soon as possible in 2021;
- thereby supporting several important objectives of the EU retail payments strategy recently published by the European Commission;
- relying on the recent initiative of the Eurosystem to ensure the implementation by end-2021 of full pan-European reachability at infrastructure level which is a vital prerequisite for the broad and effective deployment of SCT Inst across Europe.

The EPC believes that a critical mass of scheme participants and reachable payment accounts will be achieved across the EU - starting with the euro area - in due course through a natural, market-based process based on the benefits of the SCT Inst scheme for end-users and PSPs.

3. SCT Inst transaction evolution

The EPC collects on a quarterly basis the SCT Inst transaction volume statistics from all SCT Inst scheme compliant CSMs. The share of SCT Inst transactions in the total volume of SCT and SCT Inst transactions was 7.47 percent in the third quarter of 2020 compared to 4.39 percent in the third quarter of 2019. The latest quarterly SCT Inst transaction volume percentage is available on the [EPC homepage](https://www.epc-cep.eu).

Given these increases in transaction volume and in scheme adherence with the latter bringing additional transaction volume, the EPC reminded through its May and September 2020 Bulletins all SCT Inst scheme participants to pro-actively guarantee a resilient production and back-up infrastructure and necessary extra processing capacity to process and screen higher volumes of transactions and related r-transactions.

4. Reported issues

All SCT Inst scheme participants are regularly invited to submit any concrete SCT Inst processing issues they may have.

Apart of the reported issues on SEPA-wide reachability of the scheme already reported under section 2.B, some SCT Inst scheme participants addressed the matter of **full reachability of the Beneficiary Bank**.

Some Beneficiary Banks do not process incoming SCT Inst transactions for all their payment accounts. This hampers the full reachability of the scheme and results in unnecessary rejects. While every rejected transaction already causes a negative customer experience for the Originator, it is even more difficult for the Originator to understand why a specific credit transfer to a specific account is not possible when processed as an SCT Inst transaction but is possible when processed as SCT transaction.

The concrete payment possibilities with certain types of accounts differ between PSPs and even between countries. Some accounts are special purpose accounts that can only be credited or debited in relation to a very specific financial service. Each PSP determines what accounts can be used as a payment account or not. National legislators in some countries stipulate that e.g., social security allowances can be booked directly on savings accounts.

The EPC considers taking some steps emphasising to scheme participants that payment accounts reachable for SCT transactions should also be reachable for SCT Inst transactions.

Another reported issue relates to **sanction screening obligations at the Beneficiary Bank**. It is one of the major causes for the unsuccessful processing of **cross-border** SCT Inst transactions. In most cases, the exact same transaction, when processed as a regular SCT transaction will be successful. This implies that most of the rejected SCT Inst transactions due to sanction screening are 'false positive hits'.

The action radius for the EPC to tackle this is limited. Each PSP involved in a cross-border payment chain must screen this payment (including SCT Inst transactions) which is inefficient. Sanction screening harmonisation must be achieved at EU level whereby ideally such sanction screening is only to be done at the initiation phase by the Originator Bank. The EPC plans to submit some recommendations to the relevant EU authorities in this area for their consideration.

5. Ad-hoc multi-stakeholder group for mobile initiated SEPA credit transfers (including SCT Inst) (MSG MSCT)

Technical interoperability of MSCTs

The ad-hoc multi-stakeholder group developed this year two documents on the technical interoperability for MSCTs. They each went through an 8-week public consultation. The first document on Technical interoperability of MSCTs based on payee-presented data (e.g. via a QR-code, EPC312-19v1.0) was published on the EPC website in May 2020, while the second document on Technical interoperability of MSCTs based on payer-presented data (EPC096-20v1.0) will be published early December 2020, subject to approval by the EPC Board. The documents focus on the interconnectivity and related functionality needed amongst MSCT service providers to enable technical interoperability of MSCTs.

The two documents analyse the interoperability requirements for a HUB if payer and payee each have an MSCT solution from different MSCT service providers. The term HUB is hereby used to refer to an interconnectivity “platform” between the MSCT service providers but is meant to be agnostic to the way it might be implemented (as examples it could be a central infrastructure with a routing service or it could be implemented via a direct API). Furthermore, the documents describe the process flows for different payment contexts and define the minimum data sets for the exchange of data between the payer and payee to enable the initiation of an MSCT. For each of the two modes (payee- or payer presented data) also a standardised QR-code is specified, derived from these minimal data sets. Both documents have served as input to the ERPB working group on an interoperability framework for instant payments at the point of interaction (ERPB WG).

Security requirements for PSU on-boarding

The MSG MSCT contributed their expertise to a joint task force with the ERPB WG for the development of security requirements for PSU on-boarding to be used by IP service providers and merchants, hereby leveraging the guidelines contained in the MSCT IG (EPC 269-19v1.0). These requirements are included as a separate chapter in the final report developed by the ERPB WG for submission to the ERPB in November 2020.

New MSCT work

The MSG MSCT started to analyse new MSCT use cases submitted by various members including:

- MSCT use cases for off-line C2B payment contexts whereby the consumer’s mobile device has no internet connection during the transaction;
- Hybrid MSCT use cases for C2B payment contexts, whereby a card application is used for consumer authentication for the execution of an (instant) SCT;
- MSCTs with unknown final transaction amount (e.g. petrol stations, car hire, etc.);
- MSCTs involving a payment initiation service provider;
- MSCTs involving a collecting payment service provider (an entity to collect transactions on behalf of the merchant).

The aim is to also analyse the impact of these new MSCT use cases on the technical interoperability requirements for MSCTs. The MSG MSCT also plans to study the interoperability requirements and additional process flows and r-messages between the respective MSCT service providers in case of unsuccessful /failed transactions.

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While developing the various documents, the MSG MSCT also identified a number of challenges with respect to the interpretation of the PSD2 and the RTS and has filed a total of 10 questions to obtain clarifications from the EBA Q&A tool.

MSCT roadmap

The MSCT, according to their mandate, developed an MSCT roadmap hereby identifying the high priorities to be addressed for a successful market take-up. In view of the priority to address first MSCTs for C2B payment contexts based on SCT Inst, the MSG MSCT submitted a request for extension of their mandate (MSG MSCT091-20), to continue the work on the technical and security aspects for interoperability of MSCTs, for approval by the EPC Board in November 2020.

The agendas and minutes of the MSG MSCT plenary meetings are available on the EPC website through the following link: <https://www.europeanpaymentscouncil.eu/what-we-do/other-sepa-payments/sepa-goes-mobile/ad-hoc-multi-stakeholder-group-mobile-initiated>.

Pan-European recognition label for IPs at the POI

As follow-up on part of the Recommendation A of the ERPB statement in November 2019, the MSG MSCT discussed the development of a recognition label for IPs at the POI which resulted in two diverging views that are presented in MSG MSCT 092-20v1.0 attached to this report (not reviewed by the EPC Board). The MSG MSCT invites the ERPB to provide guidance on which view is supported and how (by whom, timeframe) the recognition label for IPs at the POI should be further developed.

6. 2020 EPC SEPA payment scheme rulebook change management cycle

The 2020 change management cycle for all EPC SEPA payment schemes will be completed with the publication of the 2021 EPC SEPA payment scheme rulebooks. The EPC accepted the following change requests that will be included in the 2021 or the 2023 SCT Inst scheme rulebook:

2021 SCT Inst scheme rulebook

- An updated definition of the term ‘Banking Business Day’;
- Changes to attribute descriptions to allow the link of an SCT Inst transaction with a preceding Request-To-Pay (RTP) message;
- Changes to the r-transaction procedures Recall and Request for Recall by the Originator (RFRO): extra procedure diagrams for RFRO, the extension of the period to submit a SCT Inst Recall in case of fraud and the alignment of the Recall and RFRO datasets within each SCT rulebook and between both SCT rulebooks;
- Formal rulebook reference to the separate EPC guidance document on SCT Inst r-transaction reason codes;
- An optional credit notification message based on the ISO 20022 standard for the Beneficiary for a successfully executed SCT Inst transaction in the bank-to-customer space;
- The possibility to submit SCT Inst instructions with a future execution date and time.

2023 SCT Inst scheme rulebook

- The migration of all ISO 20022 XML-based messages defined under the scheme to the 2019 version of the ISO 20022 standard;

- The alignment of all attribute numbers with those of the other three SEPA payment scheme rulebooks.

7. Earlier start of the **2022** SEPA payment scheme rulebook change management cycle

The 2022 change management cycle for all EPC SEPA payment schemes will exceptionally start earlier compared to previous cycles.

This results from the EPC decision to migrate all ISO 20022 XML-based messages used in all four SEPA payment scheme rulebooks to the 2019 version of the ISO 20022 standard on 19 November 2023. All 2023 rulebooks and related implementation guidelines (IGs) will also include possible business and/or functional rule changes that the EPC may approve at the end of the 2022 change management cycle.

The implementation of a major version change of the used ISO 20022 messages in combination with the implementation of possible new/amended business and/or functional rules in a single rulebook release, may form a challenge for some scheme participants.

To ease this potential challenge, the EPC will publish the 2023 rulebooks and related IGs in **May 2022** instead of November 2022. This gives the scheme participants and all other relevant stakeholders 18 months instead of the standard 12 months to do these changes.

This also means that the 2022 change management cycle starts six months earlier. The deadline for any stakeholder to submit change requests for the SCT Inst scheme (among others) by completing a [dedicated template](#) is now **30 June 2021** (instead of 31 December 2021). A three-month public consultation on these change requests will take place in the Fall of 2021.

This timeline change to the regular SEPA payment scheme rulebook change management cycle is considered as an exception, and is not planned to be repeated for any future change management cycle.