Status Update on SCT Inst Scheme June 2021 ERPB Meeting

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European Payments Council

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1. Background

At its 26 November 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 MSG MSCT's analysis on a pan-European label and invited the EPC to present to the June 2021 ERPB the outcome of any further work in light of the market developments;
- 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 June 2021, there are 2,326 registered SCT Inst scheme participants representing a share of 59 percent of all SCT adherents (i.e. 3,961) in **all** SEPA countries (and 65% for the EU only). It must be noted that within the 59 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. 34 CSM organisations (including national central banks under TIPS[1]) 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 Regulation[2] 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 EU and b) represent a majority of PSPs within a majority of EU Member States.

This article allowed 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 had formally been granted this temporary exemption until 21 November 2020.

[1] Target Instant Payment Settlement
[2] Regulation (EU) 260/2012

The table below shows the SCT Inst scheme adherence status compared to the SCT scheme adherence in the EU as of June 2021. Based on these adherence figures, only the first condition of the SEPA Regulation is fully met. Just six countries currently meet the second condition.

EU Country	SCT Inst	SCT	Percentage of SCT Inst scheme participants vs. SCT scheme participants (Status 11 June 2021)
Euro	**2.294**	**3.329**	**69%**
AUSTRIA	430	468	92%
BELGIUM	22	49	45%
CYPRUS	1	20	5%
ESTONIA	8	12	67%
FINLAND	5	8	63%
FRANCE	127	268	47%
GERMANY	1.252	1.426	88%
GREECE		24	0%
IRELAND	3	206	1%
ITALY	272	423	64%
LATVIA	7	18	39%
LITHUANIA	34	88	39%
LUXEMBOURG	7	66	11%
MALTA	5	30	17%
NETHERLANDS	10	37	27%
PORTUGAL	16	36	44%
SLOVAKIA		18	0%
SLOVENIA	6	16	38%
SPAIN	89	116	77%
Non-Euro	**8**	**195**	**4%**
BULGARIA	3	25	12%
CROATIA		21	0%
CZECH REPUBLIC		21	0%
DENMARK	1	46	2%
HUNGARY		25	0%
POLAND	1	24	4%
ROMANIA		23	0%
SWEDEN	3	10	30%
Grand Total	**2.302**	**3.524**	**65%**

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 twelve[3] euro area countries with a substantial majority of payment accounts reachable for SCT Inst. This number will further grow in the coming quarters.

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

Despite these encouraging developments, we consider that the following elements still influence some SCT scheme participants to postpone their adherence to the SCT Inst scheme for the time being:

- 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 for 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.

  We therefore welcome the decision of the ECB's Governing Council to facilitate the implementation of an interoperability framework across European CSMs 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., we note 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.

- Eight EU countries currently do not use the euro as official currency. For many PSPs in these countries, their current SCT transaction volume processed is rather low compared to their national currency credit transfer volume. As a result, some of these PSP communities give the priority to developing and implementing credit-transfer based instant payment solutions for their national currency transactions.

  On the other hand, we would like to point out that the PSP communities of Bulgaria, Croatia, Hungary, the Nordic countries as represented by the Nordic Payments Council and Romania have signed a license agreement with the EPC to use the SCT Inst rulebook as foundation for their national instant credit transfer payment scheme.

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

- with the aim of meeting the coverage requirements of the SEPA Regulation as soon as possible;
- thereby supporting several important objectives of the EU retail payments strategy recently published by the European Commission;

- relying on the initiative of the Eurosystem to ensure the implementation by end-2021 of full pan-European interoperability at CSM 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 is 8.57 percent in the first quarter of 2021 compared to 5.92 percent in the first quarter of 2020.

The latest quarterly SCT Inst transaction volume percentage is available on the EPC homepage.

Given these increases in transaction volume and in scheme adherence with the latter bringing additional transaction volume, the EPC reminded through its February and May 2021 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 who are also registered in the SCT scheme are unable to process some incoming SCT Inst transactions as a Beneficiary PSP. This applies to part of their customers' **euro or national-currency-denominated payment accounts** that are **only open for incoming SCT transactions**.

This results in unnecessary rejects and frictions for the customers involved and hampers the attractiveness and full reachability of the SCT Inst scheme. 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.

Although each SCT Inst scheme participant maintains the commercial freedom i) to determine which accounts can be used as payment accounts in accordance with the law applicable to them, and ii) for which of these payment accounts to offer SCT Inst payment services, in April 2021 the EPC addressed a letter to all SCT Inst scheme participants making them aware about the consequences for their customers and for the SCT Inst scheme itself.

Through this letter, the EPC has strongly encouraged the SCT Inst scheme participants concerned to ensure – at least in their capacity as Beneficiary PSPs – that their customers' euro or national-currency-denominated payment accounts already open to SCT transactions are also open to incoming SCT Inst transactions.

Another issue relates to **sanction screening obligations at the Beneficiary PSP**. 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. In March 2021, the EPC sent a letter to the European Commission addressing in detail the concrete issues at hand and inviting it to consider reviewing some aspects of the EU sanction screening framework.

5. 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 six months earlier compared to previous cycles. 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 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.