

SCT Inst for B2B and B2C transactions - Follow-up to the AMI-Pay discussion regarding amount limit and bulk payments for SCT Inst

1. Background

In the December 2021 AMI-Pay meeting, the ECB presented the AMI-Pay and NSGs feedback to the questionnaire on amount limit and bulk payments for SCT Inst and possible follow-up.

Based on the AMI-Pay discussion it was agreed that the ECB, in close contact with the European Payment Council (EPC) to ensure a complementary approach regarding the SCT Inst amount limit, would prepare a note developing the issues at stake taking a broader perspective in view of the next AMI-Pay meeting. In addition to follow-up on the amount limit and bulk payments topics, it was suggested to reflect also on the uptake of instant payments for B2B/B2C in light of instant payments becoming the new normal. For this purpose, further exchanges were held with some AMI-Pay and NSGs representatives in order to better understand current arrangements for bulk payments. In addition, the EPC was approached for further information on their current activities with regard to the SCT Inst amount limit.

The aim of this note is to discuss the aspects proposed in the December 2021 AMI-Pay meeting and to suggest a possible way forward as regards the amount limit and bulk¹ payments.

2. Instant payments as a new norm – the case of B2B/B2C

As for other payments, digital transformation also drives the growth of B2B and B2C transactions. With shifts in sales' channel strategy and rise of e-commerce, the landscape of B2B and B2C has changed considerably addressing the needs of the new workforce generations. Manufacturers, wholesalers and distributors have been moving their business online at an accelerated pace also due to the emergence of

¹ Bulk payments are understood as bulk files composed of SCT Inst orders submitted by business customers to their banks for the payment of salaries, social benefits, allowances, etc.

several online selling platforms, including for B2B, that are easing and helping them to seize new opportunities while meeting high demands of buyers. Thus, e-commerce has become increasingly important in recent years for businesses replacing some classic channels and allowing attracting new target groups and process optimization. On top of that, the digitalisation of B2B supply chains enables companies to address the new requirements of the customers with the potential to lower costs and increase product availability. In addition to the technological innovations and changes in customers' behaviour, the growth in B2B and B2C payments has been driven by new market players and changed market infrastructure.

Reports continue to show the staggering volume, growth and opportunity for B2B payments and especially when it comes to the cross-border aspect. The global B2B payments market is estimated to cross USD 5 billion by 2027 at a compound annual growth rate (CAGR) of 15% during the forecast period 2020 to 2027.² In comparison B2C is expected to grow at a CAGR of 7.9% from 2020 to 2027.³

In this respect, it is not surprising that various payment service providers have been and are becoming very active in this growing market segment by providing new, innovative and attractive solutions for businesses. Global card networks and fintechs are very efficient in this space tending to benefit from an increase in payments volumes. Cards are together with SCT, SDD and cheques (in countries where still used) the most common means to make B2B and B2C payments. Business customers are still heavily dependent on using cards and sometimes cheques, which are both⁴ relatively expensive payment methods for them as users, and are not using instant payments in everyday payment operations. High penetration of payment cards in several jurisdictions may even represent a barrier to the demand for instant payments especially if business customers view cards and card-based products as providing sufficient efficiency for B2B and B2C payments.

In this respect, the current landscape for both B2B and B2C payments stands in strong contrast to the P2P, and – to a somewhat lesser extent – C2B space where instant payments are slowly becoming the new norm. A stocktake that the ECB carried out with NCBs⁵ in September 2020, has shown that SCT Inst is not used for B2B and B2C payments in more than half of the countries that replied. In countries where businesses make use of SCT Inst, the usage is usually relatively low (i.e. not used in every day trade).

SCT Inst has the potential to become the new normal in Europe. Even though the adoption rates are still relatively low with significant heterogeneity amongst Member States, swift adoption of SCT Inst is expected in the upcoming few years. The uptake is expected to be stimulated also by a legislative initiative on instant

² Source: <https://www.mynewsdesk.com/us/wired-herald/pressreleases/b2b-payments-transaction-market-is-expected-to-reach-usd-63084-bn-by-2027-2992697>

³ Source: <https://www.grandviewresearch.com/industry-analysis/b2c-e-commerce-market>

⁴ Especially credit cards work out to be more expensive in comparison to the other payment instruments such as credit transfers and direct debits.

⁵ We received replies from 24 NCBs.

payments that the European Commission announced for the second half of 2022 and should address, amongst other, the adherence of PSPs that offer regular SCT to the SCT Inst scheme, pricing of SCT Inst, sanctions screening of SCT Inst and payer protection.

2.1 The benefits of instant payments for B2B and B2C payments

There are several ways in which instant payments could be used by businesses. Some of the benefits, which may depend on features of instant payments implementation, such as limits on transaction value and general availability, are:

- Optimisation of cash management and liquidity management: Businesses will have money instantly on their accounts which allows treasury departments simpler planning. With adequate tools and services (such as modern online accounting software packages) they can benefit from the reduced need for operating loans or lines of credit, as payments are received around the clock. If supported by an efficient end-user solution, like Request to Pay, instant payments can also provide more flexibility and control for the payer in comparison to other payment instruments.
- Just-in-time invoice payments: Instant payments allow just-in-time payments for goods to be delivered also outside business hours optimizing production lines and inventory reconciliation. By optimizing payments timing, the payer can pay at the latest moment with instant confirmation of successful payment to improve capital position or even pay early if the payer wishes to use surplus funds and/or negotiate discounts.
- Wages and pension payments: Employers can fund their payroll instantly getting money to their employees faster. Wages can be paid at the correct amount when work is done especially for workers of the “gig economy”⁶ in which temporary positions are common and companies hire independent workers for short-term commitments. This allows employees to withdraw the wages they have already earned for work performed in a pay period, before the regular pay day. Instant payments can be used also for time sensitive payments such as pensions and/or other retirement benefits providing recipients with faster access to funds.
- Insurance claims: This is where instant payments can play a big role, not only in paying everyday claims but also in a number of emergency instances where there is an immediate need in helping individuals by reimbursing funds for the insured part of the claim instantly.
- Refunds: Instant payments can enable instant refunds of customer’s payment, especially e-commerce refunds, when a private consumer returns the goods after a purchase or cancels the deal after having

⁶ The trend toward gig economy has begun and already a high proportion of the European population (ranging from 9% in Germany to a high of 22% in Italy)⁶ reported having done some work in the gig economy. Source: <https://euagenda.eu/publications/work-in-the-european-gig-economy>

paid without having received the goods. Private individuals could also benefit from immediate payments of refunds from the fiscal administration, social security⁷ or scholarships.

- Supporting new business models like a drop-shipping business model⁸: As instant payments break down the barriers of long settlement cycles they can fuel new business models. They can realise operational efficiencies also for drop-shipping business model as merchants can directly forward the customer payment to the supplier along with the order and have goods directly delivered to the customer. Due to this, businesses do not need to hold any – or a very minimum of – inventory.

2.2 Potential barriers to the implementation of B2B and B2C instant payments

Some of the barriers for B2B or B2C payments are not different from other instant payments use cases, but some of them could have a more relevant impact, taking into account the global and (intra-SEPA) cross-border dimension of these types of payments. Based on the above-mentioned NCBs' stocktake, the amount limit and individual payments processing have been identified as two of these potential barriers that could impact the introduction of instant payments in the B2B and B2C sphere.

As for the amount limit, although as of 1 July 2020 the amount limit is set at € 100,000 (instead of the former € 15.000) at scheme level, some may still consider it as rather low for certain B2B payments and it may deter corporates from using instant payments. However, agreements between individual banks or communities of banks have the possibility to derogate to this default setting and instead accept higher amounts in SCT Inst transactions or even not apply any limit. Consequently, a company would have to check beforehand if a bank would accept their payments and with which amount limit. This is particularly relevant in a (intra-SEPA) cross-border context and therefore for businesses' transactions. The amount limit is expected to grow once instant payments become more widely adopted within SEPA and business customers get used to making instant payments. Therefore, a further increase in the transaction amount limit might enable more transactions by businesses (although this may also raise additional fraud risks⁹).

The SCT Inst Scheme Management Board (SMB) of the EPC formally analyses once a year (via its regular periodic scheme change management cycle) if there is a need to adapt the maximum transaction amount based on the suggestions proposed by scheme participant(s). Based on the consultation input from the SCT Inst scheme participants, the SMB assesses if there is sufficient support to set a new maximum

⁷ Different countries may have different arrangements of the tax refunds and social security pay-outs. In countries where tax refunds are paid much later after the tax calculation instant payments may not provide additional value.

⁸ Drop-shipping business is when an owner finds a list of suppliers to supply products for their website to market and sell. However, instead of the business owner holding the inventory, as with an e-commerce or Amazon business, a third party handles all of the shipping and logistics for them. This third party is typically a wholesaler, who "drop-ships" the product to the customer on the business' behalf.

⁹ In this regard, national communities who have already implemented higher transaction limits or no limits could provide preliminary findings on fraud once the data would be available.

amount. In the future, with more banks and businesses offering instant payments a push towards further increase of the transaction amount limit could be expected.

Regarding bulk payments, in business customers' payment interactions, such as recurring or scheduled payments, business end-users may prefer bulk-processed payments as most of the time companies send their payment transactions in bulk, gathering multiple payment transactions in one package. This may create challenges since instant payments are individually processed by the infrastructures, although it is possible for banks to offer their customers the possibility to submit SCT Inst payment orders in bulk, which will then have to be de-bulked for further processing. Particularly larger corporate customers might want to transmit instant payments orders in bulk and this function is already offered by some banks. Should banks offer bulking and de-bulking as part of their regular services, corporates would not have to convert their own payment/ administrative infrastructure into a real-time one and thus make instant payments more easily acceptable.

3. AMI-Pay / NSGs feedback on bulk payments and amount limit and possible way forward

To manage business customers' expectations for instant payments the stated two issues were investigated further in order to identify any problems that might require further actions.

3.1 Bulk payments

As regards availability of bulk payments for businesses, a diverse approach seems to be at hand among euro area commercial banks. While half of them neither offer nor plan to offer these services in the near future, the other half is already supporting these services today or is planning to support them in the short term. The latter group of banks is offering or going to offer SCT Instructions service in bulk format based on the ISO20022 standard. In a wide number of replies banks further explained that in line with the EPC SCT Inst Customer-to-PSP Implementation Guidelines (hereinafter 'Guidelines'), payment end-users have the possibility to submit SCT Inst instructions in bulk, as message pain.001¹⁰ can be used for bulk and single transactions. Currently, de-bulking of SCT Inst is usually done by sending banks, which want to keep control over these services. There seems to be no real demand for de-bulking arrangements at the level of CSMs.

German banks further explained that in Germany the submission of SCT Inst instructions in bulk format is based on the agreement by the German Banking Industry Committee (GBIC). The German banks have

¹⁰ Pain.001 is a payments initiation message by ISO 20022. It depicts a Credit Transfer message in XML format.

agreed on using the Electronic Banking Internet Communication Standard (EBICS)¹¹ in order to be able to offer their customers the transmission of bulks. The description in the GBIC agreement supports clients and banks in the migration by offering a German translation of the EPC standards and allowing the usage of older ISO versions for a migration phase. The bulk submission is an optional offer for corporates and is contractually agreed between the payer and bank. There is a concrete market need for the usage of bulk payments from corporate customers who use EBICS as a communication protocol, as it is already well established for SCT and SDD. According to the banks' clarifications the standard fully complies with the EPC standard.

A national community standard is in use also in Italy where the standardization activities regarding payments and collection in the customer to banks space are set by CBI S.c.p.a., an Italian financial industry utility which has been developing standards and implementation guidelines in regard to the Italian interbank space [for over 20 years]. Most banks apply the same standard also for SCT Inst payments in C2B space enabling corporates to exchange financial messages with their respective banks through a unique front-end and a dedicated national infrastructure. The standard is compliant with the EPC standard however, in order to create bulk SCT Inst as part of bilateral or multilateral agreements between corporates and banks, it provides some additional specific rules. For example, in the case of the standard set by CBI S.c.p.a., it would be necessary to specify that the parameter "Service Level" equals to the proprietary code "FAST".

In a wider number of replies, banks agreed that there should be no risk of fragmentation if the implementation of bulk services follows the EPC standard as there should be no individual implementation of EPC specifications. This is the view of also German and Italian banks offering these services based on national standards but in line with the EPC standards.

Some banks specified that the EPC rules do leave open the concrete specifications for the communication channels that customer and banks have agreed with each other. However, they are of the opinion that this should not lead to fragmentation at the scheme or infrastructure level as the interbank area payments will be fully in line with the scheme and guideline standards while for the customer-to-bank area banks should have the possibility to provide their customers with some individual added value services. In addition, this may allow for efficient and market-driven implementations for clients and banks. Only few banks are of the opinion that implementing the EPC standard, covering the minimum elements relevant to the initiation of SCT Inst could lead to fragmentation.

The EPC Guidelines allows bulk payments and any bank adhering to the SCT Inst scheme needs to support this standard if the user wishes to use it. All banks currently offering bulk payments offer them in line with

¹¹ EBICS is a standard method for secure data transfer between corporate customers and banks in Germany, France, Austria and Switzerland.

the EPC standard and several of these banks see the usage of the EPC standard as sufficient, i.e. not leading to market fragmentation.

What could be seen as an issue though is the fact that half of the banks which responded to the AMI-Pay questionnaire are not offering bulk payments to their business clients. Once (particularly larger) corporates have identified a demand for bulk payments in doing their business, they should be able to transmit instant payments orders in bulk and bulking / de-bulking services should become regular services in the offers of banks so that corporates do not have to convert first their infrastructure into a real-time one and thus making instant payments more easily acceptable. **In this respect, as businesses would benefit from the ability to send instant payments in bulk, banks should be encouraged to offer their clients these services in line with the EPC standards. It is expected that banks would be proactive in responding to their corporate customers demand and in offering this service in order not to lose their customers.**

3.2 SCT Inst amount limit

Raising the SCT Inst amount limit might be preferable for a number of reasons, including broadening the scope of use cases for which instant payments could be used and thus the attractiveness of instant payments for businesses.

However, based on the AMI-Pay and NSGs responses there are still more banks who believe that the current amount limit set at € 100.000 is efficient. Such conclusion was also the outcome of the consultation with the SCT Inst scheme participant communities conducted by the EPC in June 2021 showing that at that time there was no appetite from the market to amend the current maximum amount let alone to abolish it.

The EPC will look into the issue again in June this year by consulting the SCT Inst scheme participant communities and based on the input make a decision on a potential increase of the limit in September 2022.

For the time being it seems that the scheme amount limit and the relatively low number of agreements between individual banks or communities of banks derogating from the default scheme amount limit are not causing fragmentation issues in the payment market. However, with the anticipated wider adoption of SCT Inst in the future this might change as individual national communities may start implementing different approaches (i.e. higher limits, no limits). In this respect, **it is important that when discussing SCT Inst implementation options to have a unified view at the EU level to keep the product as homogenous as possible at the European level.**

The EPC, as SCT Inst scheme manager, seems best suited to hold discussions with the market on the need for a possible amount limit change. As this is a decision to be proposed to the EPC by a banking community, **the SCT Inst scheme participants should communicate and consult the possibility of**

raising the limit to/with businesses (as part of their communication activities) and propose additional changes to the EPC if advised so by businesses.

In addition, the AMI-Pay could monitor developments as well as the impact that the use of different limits may have on the market and on this basis identify potential solutions to address these. Publishing the limits applied by individual banks and/or banking communities might be considered as a potential option aiming at increasing transparency.

AMI-Pay members are invited to discuss the analysis.