

Ensuring a smooth take-off for euro instant payments:

A white paper
on pan-European
infrastructure
considerations

June 2017



Introduction

The Single Euro Payments Area will witness the introduction of real-time euro payments on 20th November 2017, when the pan-European SEPA Instant Credit Transfer (SCT Inst) Scheme and the first pan-European instant payment infrastructure service supporting this scheme will be launched.

These major developments are laying the foundation for the roll-out of euro real-time payments on a pan-European scale. But the speed of the instant payment uptake across Europe is difficult to predict for the next few years and beyond, because it will depend on many different factors. Some of these success factors can be supported through infrastructure-related aspects, processes or arrangements.

During its conception and development of a pan-European real-time payment solution with users from all around Europe, EBA CLEARING has striven to optimally support key instant payment-related success drivers. The present white paper captures the most crucial of these drivers to explain why they are important success factors and how they can be supported in the infrastructure layer.

In addition, the white paper provides insights into the specific choices EBA CLEARING has made, in co-operation with its user community, in the development and implementation of its instant payment system RT1 in order to optimally support these success drivers.

The white paper has been created for the different stakeholders involved or interested in the roll-out of instant payments. They include, among others:

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- Potential participants in an instant payment infrastructure, i.e. all entities that intend to adhere to the EPC SCT Inst Scheme;
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- Providers of technical services related to connectivity and/or hard- and software components;
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- Providers supporting operational readiness, including the provisioning of liquidity services to support the settlement or execution of instant payments;
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- Consultancies seeking to advise instant payment stakeholders on strategic or implementation-related aspects; as well as
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- Anyone with an interest in supporting the emergence and success of instant payments in euro and across Europe.
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A long runway to a speedy take-off: the journey to instant payments

Over the last 15 years, change has been the constant in the European payments landscape. This change has had different drivers:

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- Harmonisation across Europe to support the integration of the Internal Market and to enable efficiencies of scale and cost-saving opportunities: this led to the creation of the Single Euro Payments Area, which saw the introduction of payment instruments based on a single set of rules and formats for credit transfers (SCT) and direct debits (SDD) in 2008 and 2009 respectively. These schemes are now applicable within 34 countries, where they have become the standard payment instruments for credit transfers and direct debits in euro.
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- EU-wide payments-related regulation: the major developments here were the Cross-border Payments Regulation, the SEPA Regulation and the Payment Services Directive (PSD). The latter was introduced in 2009 and a revised version (PSD2) will become applicable from early 2018 on.
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- The evolution of technology: this prepared the ground for new market entrants and new customer habits and expectations. As an example, the development and take-up of mobile and online devices have created new communication and distribution channels towards customers, which both incumbent financial institutions and new market players have taken advantage of to roll out new or enhanced products and services.
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The above-mentioned change drivers have contributed to reshaping the landscape of euro payments, resulting in more convenience, speed, security, reliability, efficiency and cost effectiveness for the market.

In December 2014, the Euro Retail Payments Board sketched out the next deliverable after the SEPA migration by providing a definition for instant payments and calling on the supply side to come forward with at least one pan-European euro instant payment solution available to end-users in the short term.

This call for action accelerated the preparations for real-time payments undertaken by individual players. The European Payments Council developed a SEPA Instant Credit Transfer (SCT Inst) Scheme based on the SCT ISO 20022 messaging standard. The scheme foresees the end-to-end execution of euro transactions between payment accounts in less than 10 seconds, around the clock on any day of the year, with immediate availability of the funds on the beneficiary's payment account.

EBA CLEARING'S ROLE AND POSITION IN THE EUROPEAN PAYMENTS MARKET

From EMU to SEPA, EBA CLEARING has been supporting major developments in the European payments industry by delivering the necessary pan-European market infrastructure solutions in a timely manner and at a reasonable cost, based on a close co-operation with its multinational user community and best-of-breed technology partners. The Company's payment systems are at the heart of the European economy providing critical services across Europe on a daily basis. They include two systemically important payment systems (SIPS): EURO1 for single high-value payments and STEP2 for bulk payments. STEP2 processes over 40% of SCTs and SDDs with processing peaks above 150 million transactions per day.

Given the Company's long and successful track record in delivering pan-European payment infrastructure solutions, EBA CLEARING was well-positioned to positively respond to the ERPB's call for the creation of at least one pan-European instant payment system and in early 2015 geared up its work towards defining and developing such a system.

EBA CLEARING'S RT1 SOLUTION: SUPPORTING SCT INST SCHEME REQUIREMENTS

From the launch date of the SCT Inst Scheme on, financial institutions from all over Europe will be able to use EBA CLEARING's RT1 infrastructure solution for any payment product in euro complying with the EPC's SCT Inst Scheme and in line with the ISO 20022 global messaging standards for real-time payments.

The new payment system will be operating 24/7 around the clock on any day of the year. The solution will enable payment service providers to meet the EPC SCT Inst Scheme timelines, but will also be able to support user needs that go above and beyond the scheme requirements. RT1 has been developed and implemented with the support of 39 funding institutions from all across Europe and in co-operation with EBA CLEARING's technology provider SIA.

Ready for take-off?

Key drivers for a successful starting phase

While the SCT Inst Scheme is new, it is certainly not the first real-time payment scheme. Across the world, including in some European markets (such as Denmark, Sweden, Switzerland, UK), real-time payment infrastructure services have been implemented and followed by the successful roll-out of payment products serving different customer needs.

These existing real-time payment initiatives differ in their set-up, the use cases they support and, thus, in the resulting business opportunities for users as well as providers. They may address retail payments, money transfers, cash management services for all types of customers: consumers, SMEs, corporates and public administrations. The distribution and processing of instant payment services often involve a wide range of players in addition to credit institutions, such as fintechs, payment institutions, e-money institutions and payment processors.

Although they are very different from each other, the successful initiatives in this field have some elements in common and there are lessons to be learnt that can contribute to the success of euro instant payments across Europe. Not all of these initiatives have known instant success and some have witnessed longer ramp-up periods, as is not unusual for new payment instruments.

Based on the lessons learnt from other initiatives and on the requirements voiced by future infrastructure service users across Europe, the following elements have been identified as crucial elements for a successful take-up of real-time payments:

- **Payment certainty:** for payments where the funds are made available immediately, the payment must be guaranteed and risk free. Payment certainty has to apply for the payer, the payee and the payment service providers involved in the transaction.
- **A wide usability and reach:** users need to be able to reach as many payment service providers and their customers as possible as soon as possible after the launch of the real-time payment service.
- **Flexibility in supporting a wide variety of real-time products and services for payment users:** different customers may need different services. This means that the underlying payment infrastructure should be flexible to support evolving propositions in the services layer.
- **Efficiency and cost effectiveness:** as with all payment instruments and related infrastructures, efficiency and costs are of major importance. Aside from economies of scale and synergy-driven considerations, relevant infrastructure-related aspects in this context include efficient liquidity management arrangements.

For euro instant payments these elements need to be addressed in a domestic as well as in a cross-border setting. We can already see that the different markets in Europe will develop at different speeds with different timing, but it is important not to lose sight of the bigger picture of one Single Euro Payments Area. This increases the need for solutions that are flexible enough to support the different markets in their own developments while also leveraging economies of scale by allowing these payments to be processed on the same platform.

MAIN RT1 PRINCIPLES SUPPORTING KEY SUCCESS FACTORS FOR INSTANT PAYMENTS: AN OVERVIEW

EBA CLEARING has built the RT1 platform in line with five main principles aimed at supporting the success of euro instant payments across Europe:

- The first principle is immediate finality of each instant payment: every transaction is final once processed, there is no settlement risk;
- The second principle is openness and ease of access: conceived to facilitate reach, the RT1 access and participation model is aimed at being fully inclusive of all types of entities adhering to the new scheme and at making the access to the system as easy as possible;
- The third principle is agnosticism towards the services layer: RT1 provides services in the infrastructure layer, segregated from the services and distribution layer. This should give participants the flexibility to set their own strategies for use cases, added-value services and distribution channels;
- The fourth principle is efficient liquidity management: while this may not be a key consideration during the ramp-up phase, the provision of efficient liquidity management arrangements, including forecasting tools, is expected to become an important factor as volumes increase;
- The last principle is pan-European flexibility: participants should be able to process and monitor all their instant payments via a single system for both domestic and cross-border transactions. This system should allow them to comply with the SCT Inst Scheme as well as support requirements over and above this scheme where agreed between participants with the same requirements in closed user group settings.

The first key to success: payment certainty

All use cases for instant payments rely on the certainty of the payment for the payer and the payee. There is no room for charge-back or revocability as the funds must be made available immediately to the beneficiary for instant reuse. Hence, more than for any other retail payment method (and similarly to wholesale payments), the SCT Inst roll-out and business success depend on the trust, by all parties in the chain, in the finality of the payment. Building that trust end to end requires the ability of pay-

ment service providers to provide settlement certainty. This can be best ensured by pre-funding participant positions in central bank funds and using these to clear payments between PSPs. Other methods, such as post-funding with guarantees, introduce uncertainty and settlement risk, which can be especially problematic in times of stress. These risks are particularly acute when actors in the processing chain that are not able to intermediate credit are asked to bear these risks regardless.

HOW RT1 SUPPORTS REAL-TIME FUND TRANSFERS FOR INSTANT PAYMENT TRANSACTIONS

RT1 provides instantaneous finality for payment transactions in the system. A real-time fund transfer occurs in RT1 before the payee's payment service provider (PSP) credits the funds to the payee. Participants maintain a position in the system, which is adjusted upon release of each payment transaction. All positions are backed by central bank funds, euro for euro, in the technical account maintained for the system in TARGET2. Positions in RT1 are fully pre-funded. It is not possible to have a negative position, nor is it possible to anticipate funding at a later point in time. RT1 will be designated under the Settlement Finality Directive (Directive No 98/26/EC), and transactions must be settled between counterparts that qualify as "institutions" under the Directive. Thus, the settlement model of RT1 avoids credit risk.

The second key to success: reach

With payment certainty guaranteed, users can trust the instant payment instrument, which is a key starting point for success. Widespread adoption and use of instant payments, however, are just as important. To facilitate these elements, the industry will have to develop the ability for users to reach

other users fast and predictably. This requires commitment from payment service providers, technical service providers, clearing and settlement mechanism providers as well as other parties and stakeholders to take the necessary steps to establish Europe-wide reach for instant payment services.

CONCEIVED WITH THE AIM TO BUILD REACH: THE RT1 ACCESS AND PARTICIPATION MODEL

The access and participation model for RT1 has been defined with a view to allowing fair and open access to the service. Different access and participation options with several possibilities for connecting to the service are provided, with the aim to ease access and efficiently build reach.

RT1 services are available to all account-servicing PSPs (AS-PSPs) adhering to the SCT Inst scheme. AS-PSPs that do

not qualify as "institutions" under the Settlement Finality Directive can make themselves reachable as "addressable PSPs" in the system via a participating institution. To facilitate participation by AS-PSPs of all sizes and with different usage strategies, the RT1 participation model further supports different co-operation models and support services, so that participants can rely on their trusted providers for their connectivity or liquidity needs.

Juggling the first and second key to success: the need to balance risk and reach in the access and participation model

In order to contribute to the success of instant payments, market infrastructures need to avoid unacceptable risks and at the same time include and support users to a maximum extent to achieve reach.

A well-designed access and participation model can address both needs. Sound risk management demands that risk-driven requirements are set with regard to participation in the system and that any risks are borne by those best-suited to bear them. At the same time, in order to include the largest possible number and variety of users, a payment infrastructure system needs to offer multiple participation and access options.

To support a wide number and variety of participants, the market infrastructure should also ensure that participants have options with different complexity and

automation levels at their disposal when it comes to technical connectivity and interfaces, so that they can choose the solutions that best fit their internal system set-up and their onboarding or usage strategy.

Another possibility for an infrastructure system, while balancing risk and reach considerations, is to support different co-operation and support models allowing users to rely on the investments, the know-how and the experience of other participants or specialised third parties for the provision of technical, operational or liquidity services. This approach can help to quickly and efficiently build pan-European reach for instant payments while limiting risks.

RT1 ACCESS AND PARTICIPATION OPTIONS: AN OVERVIEW

RT1 supports the following participation and access options:

- Participants can set up a direct connection with the system to exchange messages as a service participant;
- Participants can rely on other participants or on technical service providers to support them with connectivity services (see first box on page 10) or liquidity services (see first box on page 11);
- PSPs can make themselves reachable as "addressable PSPs" in the system via a participant;
- Participants can make use of a combination of these options in case they have different entities that will participate in the service.

It goes without saying that all participation and access arrangements need to ensure scheme compliance of all AS-PSPs involved, notably regarding 24/7/365 availability and execution times.

HOW RT1 SUPPORTS THE CONNECTIVITY NEEDS OF ITS PARTICIPANTS

RT1 was designed to service different types of participants in all its components. Regarding connectivity, this means that the system offers a variety of choices at different levels:

- RT1 is network-agnostic and supports two connectivity solutions from its launch date with more potentially following in the future. Users can choose from these connectivity options. They can also implement different connectivity options, to have a back-up arrangement.
- RT1 offers different ways for users to interface with the platform: while quick starters and smaller PSPs users may opt for a 'plug-and-play' web-based user interface, RT1 also offers a functionality suite based on Application

Programming Interfaces (APIs) and machine-readable reports that allows full integration of instant payment processing into a PSP's existing processes and systems, thus enabling full automation.

- RT1 supports co-operation models where other participants or third parties provide connectivity or access services: it is expected that eventually most of the SCT adherent AS-PSPs will also have an interest in using SCT Inst, but not all may be equipped or interested to cover the full investments required to establish 24/7 availability of their internal systems. That is why users are able to rely on other participants or technical service providers (TSPs) for their access or connectivity to the system.

CONNECTIVITY OPTIONS AND ROLES IN RT1



RT1 ACCESS AND PARTICIPATION OPTIONS FOR PARTICIPANTS IN OTHER INSTANT PAYMENT CSMS

RT1 is open to AS-PSPs already connected to another clearing and settlement mechanism (CSM) and it offers different options to facilitate their onboarding. Appropriate risk mitigation requires their onboarding as a participant or as an addressable PSP using one of the options in the access and participation model described earlier in this paper.

However, participants can easily leverage their connectivity to another CSM for RT1 and thus reduce their investment and running costs as well as improve time to market. By joining RT1 as a liquidity-serviced participant, they can rely on their CSM for seamless connectivity while using another participant or a standalone liquidity provider for handling their settlement.

HOW RT1 SUPPORTS THE LIQUIDITY MANAGEMENT NEEDS OF ITS PARTICIPANTS

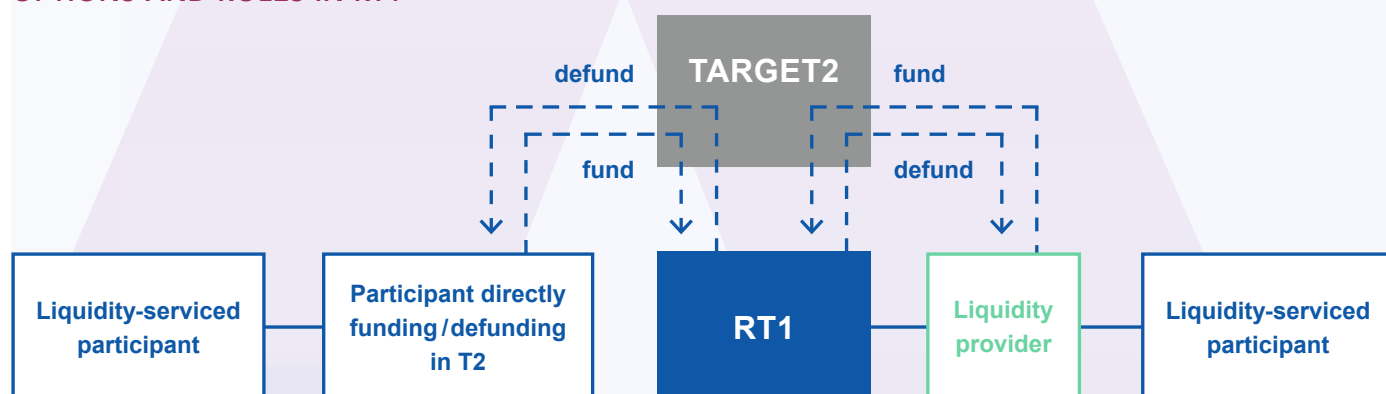
For the funding or defunding of an RT1 participant's liquidity position in central bank money via the new ASI procedure 6 real-time, a TARGET2 account is needed. Any AS-PSP with a TARGET2 account can handle these funding and defunding processes on its own behalf as well as on behalf of other participants. This may, for example, be of use to larger PSPs: while their branches could have their own access to RT1, all liquidity processes could be managed centrally by the head office.

The RT1 participation model also recognises the role of standalone liquidity providers (LPs) to ease participant access to the infrastructure. Liquidity providers are institutions with a TARGET2 account that do not have the intention to adhere to

the SCT Inst Scheme themselves, but provide access to liquidity to AS-PSPs. As liquidity-serviced participants, the latter have their own position in RT1 but rely on a third party (their liquidity provider) for the funding and defunding of their position in TARGET2.

Each participant, whether it is funding/defunding its own position or whether it is serviced for its liquidity by another participant or a liquidity provider, has its own position in the RT1 system. This allows the participant to monitor and manage the position and easily reconcile its processed payments against its position together with the funding and defunding operations.

LIQUIDITY MANAGEMENT OPTIONS AND ROLES IN RT1



HOW RT1 ACTIVELY SUPPORTS THE CO-OPERATION MODELS DEVELOPED FOR SERVICED PARTICIPANTS

Service providers are playing an important role in the take-up of instant payments by helping PSPs to get ready for real-time processing. RT1 explicitly recognises different support roles for access, liquidity and technology services and supports the different co-operation models that users may opt for. To this effect, EBA CLEARING is facilitating service providers in their role through the following measures:

- RT1 documentation is made available to qualifying service providers preparing their solutions and services for future RT1 users;

- Training webinars are offered to service providers to assist them in getting familiar with the system;
- The RT1 test system is open to service providers that want to test the technical solutions they provide to their PSPs;
- Technical service providers that want to offer a full service to future users can assist them in their participation in the live service. The onboarding of these providers includes a self-certification process to confirm the availability and readiness of their RT1-related services both to EBA CLEARING and the users of the system.

An additional key to success: efficient liquidity management

When it comes to liquidity management, PSPs are often faced with conflicting requirements: in the case of SEPA Credit Transfers (SCTs), for example, a single net settlement cycle per day would be most liquidity-efficient, but in many cases, PSPs make use of multiple settlement cycles per day in order to meet customer requirements.

For instant payments, many operational aspects will not differ materially from the handling of SCTs and for liquidity efficiency, there are similarities too. PSPs already manage different pots of liquidity today, for payment purposes as well as other services, and there are often separate pots for the different payment systems that a PSP participates in.

As detailed in the section covering the payment certainty requirement, instant payments – unlike SCTs – will be based on pre-funding with a constant need for

liquidity as a result. In practice, however, many PSPs today also constantly set aside a certain amount of liquidity for SCT, even though it is only required at the end of each cycle.

As instant payments will be transferred and settled with immediate finality, based on pre-funded positions, netting will not be possible and liquidity efficiency will be a challenge. Market infrastructures can support their users with tools to optimise liquidity efficiency through automation and predictive analysis, while avoiding all risk as the funds are credited to the account of the beneficiary immediately and have to be irrevocable.

HOW RT1 SUPPORTS EFFICIENT LIQUIDITY MANAGEMENT

Recognising the need for participants to optimally manage liquidity, RT1 foresees a set of tools that will enable participants to flexibly manage their payment capacity in the system for the different days in the week and times during the day. These liquidity management processes can be fully automated, so that participants can integrate them into their own systems; alternatively, they can be executed manually or using a semi-automated approach. Users can also start with manual processes for the instant payment start-up phase and move on to implementing automated processes at a later stage.

While RT1 provides a broad set of tools and ways for participants to manage their liquidity in RT1 themselves, they can also opt to outsource their liquidity management to another participant or a liquidity provider as highlighted previously in the access and participation model section.

The 24/7 nature of instant payments adds another factor to a participant's liquidity efficiency considerations: during TARGET2 closing hours, liquidity cannot be actively managed and increased or moved to be used for other purposes. Today, this is already the case for the SCT night-time settlement cycles. This night-time funding is well managed by participating PSPs as they know their liquidity needs based on experience and can easily determine the necessary safety margin as well.

Instant payments are still uncharted territory and the liquidity needs will be difficult to predict at the start. At the same time, it is key to have sufficient liquidity available: rejections due to insufficient funds will not build trust and success for the new payment instrument. Therefore, PSPs will probably set aside more liquidity for instant payments than they expect to use.

While during the early days of instant payments, there will be a lack of historical data enabling good forecasting, it can also be expected that during the ramp-up volumes and values will be rather low, limiting the need for available pre-funded liquidity, even considering a large safety margin. At the same time, during TARGET2 closing hours, there are fewer services settling; this may enable PSPs to set aside larger amounts of liquidity for instant payment processing without too much impact on other services and costs.

The instant payment ramp-up period will also permit the collection of historical data, enabling better forecasting over time. Based on the growing experience with the new instrument, processes can be fine-tuned and lead to a more efficient use of liquidity (even when spread over multiple market infrastructures).

HOW RT1 PROVIDES FORECASTING SUPPORT

RT1 will come with a rich business information service where data on participants' processing can be captured and used to contribute to improving usage of the service. Reports for forecasting purposes could be built by the participants or be pre-defined based on user requirements.

Construction ahead:

Tackling emerging and future challenges

Dealing with emerging challenges

As implementation plans for different customer services as well as for instant payment clearing and settlement services are gathering speed around Europe, it is becoming clear that the infrastructures under development differ in terms of scope and service levels. Some are geared at handling the domestic instant payment traffic of one specific community while others intend to provide both domestic and cross-border services.

All of these solutions will be based on the EPC's SCT Inst Scheme but there are already differences emerging in several local markets. Some differences were foreseen within the scope of the scheme, such as shorter time-out settings or higher maximum amounts. Some communities also have clear views on additional optional services beyond the scheme, such as extended remittance information, or even outside the scheme, such as services with a longer time-out period or no time-out deadline at all.

Even if all instant payment CSMs are interoperable, there may still be fragmentation because of these different market requirements.

This fragmentation risk has given rise to concerns regarding the efficiency and effectiveness of the new payment instrument, both with regard to operations and liquidity aspects and especially for PSPs that serve multiple markets with different needs.

PSPs have choices to make, based on their customers' needs:

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- They can focus on a generic experience across Europe and provide services based on the standard EPC SCT Inst Scheme, supporting a uniform customer experience and generating efficiencies for both their customers' processes and their own; or
 - They can put themselves in a position to support national differences if their customers' functional or market reach requirements demand this.
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This is not a new choice; in the current SEPA environment, PSPs also still have to balance operational and liquidity efficiency with other requirements to deal with the market differences that continue to exist in Europe.

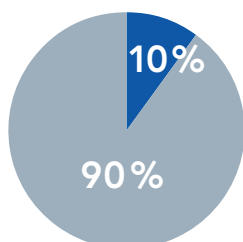
At the same time, there are benefits for all markets if these differences can be reduced and the industry comes to harmonised European solutions enabling the economies of scale that such an alignment can bring.

Against this background, it may be useful to revisit the commonly held view that payments are mostly of domestic nature. When looking at recent payment data, one can find clear indications that this picture has begun to change.

As an example, while 90% of the SEPA Credit Transfers processed by the STEP2 SCT Service in 2016 were domestic traffic, it is worth noting that the cross-border share has increased substantially over the past few years and that cross-border transactions currently represent more than 25% of all payments processed in STEP2 SCT from a value perspective.

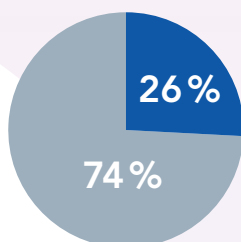
COMPARISON OF DOMESTIC VS. CROSS-BORDER STEP2 SCT VOLUMES AND VALUES AT ORIGINATOR BANK LEVEL IN 2016

Cross-border vs. domestic:
number of STEP2 SCT payments
by originator bank



Cross-border
Domestic

Cross-border vs. domestic:
value of STEP2 SCT payments
by originator bank



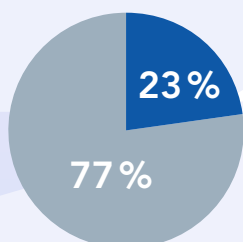
Cross-border
Domestic

In addition, there are distinct signs that PSPs are moving away from offering or operating services on a per-country basis; a consolidation across borders is taking place in particular at the level of PSPs providing payment services to their peers. This is shown by a view on these same 2016 SCT payments sorted

at the level of the Direct Participants having sent the SCT transactions to the STEP2 platform. If one looks at the STEP2 SCT traffic from that perspective, only 77% of these payment volumes were domestic while cross-border transactions even accounted for 43% of the total value processed.

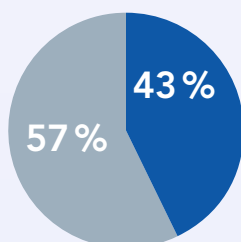
COMPARISON OF DOMESTIC VS. CROSS-BORDER STEP2 SCT VOLUMES AND VALUES AT SENDING DIRECT PARTICIPANT LEVEL IN 2016

Cross-border vs. domestic:
number of STEP2 SCT payments
as sent by Direct Participants



Cross-border
Domestic

Cross-border vs. domestic:
value of STEP2 SCT payments
as sent by Direct Participants



Cross-border
Domestic

As instant payments are foreseen to replace card and cash payments to some extent as well, the cross-border share in instant payments could become even higher.

Based on these developments, the expectation is that the share of domestic transactions might decrease even further and faster for instant payments than it

already has for today's retail payment instruments. Against this background, it is particularly important that instant payment infrastructure solutions are built for the future and ready to serve both today's domestic needs as well as the growing number of cross-border transactions and the requirements they entail.

EBA CLEARING RT1 FLEXIBILITY

With the consolidation opportunities, economies of scale and other harmonisation and synergies-related benefits of the pan-European STEP2 platform in mind, the EBA CLEARING user community showed from the beginning a strong interest in developing a pan-European solution for instant payments. However, a number of communities will also use RT1 for domestic transactions.

To meet both cross-border and domestic usage needs in line with its principle of pan-European flexibility, RT1 is aimed at striking the balance between harmonisation/efficiency and different market needs. The system is developed and implemented in a harmonised way across Europe in order to enable wide reach. At the same time, the support of additional local market requirements can be arranged based on closed user group arrangements.

Where considered useful, such requirements may also from the start be addressed at a pan-European level in consultation with the wider RT1 community in order to pave the way for a potential future adoption of these optional services by other communities. This approach of pan-European flexibility enables the users of RT1 to avoid having to invest into several local infrastructure solutions.

Preparing for future challenges

As euro instant payments are maturing, we may see a significant adoption of the payment instrument for corporate payments with higher values. This would probably lead to a change of view in the market with regard to liquidity needs and risks.

The liquidity management and forecasting tools provided as part of the instant payment infrastructure offerings would still play the same important role, but liquidity needs could be higher, also during TARGET2 closing hours when active liquidity management will not be possible. While there might still be less use of liquidity during the night and over the weekend, PSPs will not want to set all their available liquidity aside for instant payment services.

Even if this liquidity were to be considered as being part of the balance to meet reserve requirements, PSPs would not want to run the risk that all funds are depleted due to instant payments, when at the start of the business day this liquidity is needed for the (highly) urgent settlement of other services.

An additional concern could be the impact of instant payments on the intraday liquidity buffers that banks have to maintain since Basel guidelines require adequate intraday liquidity risk management, for which peaks in the usage of intraday liquidity set aside for services need to be taken into account.

Another factor to be taken into consideration in case we see a considerable adoption of instant payments for corporate and higher value transactions is the cross-border element. Corporates tend to operate much more across borders than the average consumer or smaller businesses, as is confirmed by the relatively high share of cross-border transactions in the overall value of the STEP2 SEPA Credit Transfer traffic, as detailed earlier in this paper. While it

remains to be seen how quickly and profoundly today's business practices around corporate payments may change due to instant payments, this evolution scenario could have a significant impact on liquidity management considerations.

As a result, PSPs may need additional liquidity management solutions in a mature instant payments market. First of all, the opportunity to actively manage liquidity at all times or at least during longer hours would of course be a welcomed improvement, so that very high buffers during TARGET2 closing hours could be avoided.

In addition, PSPs might want to improve liquidity efficiency and reduce operational cost and risk by participating in fewer market infrastructures and concentrating their traffic in CSMs that do offer wide reach and support cross-border needs.

According to market projections that look even further ahead, instant payments may even become the new norm, which would make the instant payment platforms being developed today the standard infrastructure systems of tomorrow. Against this background, it might be necessary to revisit the balance between liquidity efficiency considerations and user requirements. PSPs and their customers should determine the relative merits of having all payments processed within 10 or even five seconds. There might be an opportunity to offer – perhaps at a lower cost – payments that are in principle processed instantly, but that could be put on hold for a short period for liquidity efficiency reasons.

HOW EBA CLEARING WILL ENGAGE WITH USERS ON FUTURE DEVELOPMENTS

EBA CLEARING develops and operates its services with a mission to deliver market infrastructure solutions for the pan-European payments industry, to support its users' needs in line with user requirements. The Company will continue to develop and enhance its services in line with the evolving requirements of its user community from across Europe. To this effect, EBA CLEARING runs an annual change request and management exercise for each of its services, which includes comprehensive user consultation processes.

The introduction of instant payments is one of several emerging developments that are likely to leave major footprints in the overall payments market, including in the infrastructure layer, over the next few years. It is difficult to predict though how these evolvments will impact the services and infrastructure layers and how this may influence the future development of RT1 and of other EBA CLEARING Services.

EBA CLEARING is willing and ready to evolve its service offerings together with its user community based on its proven pan-European and country-neutral approach. The Company will strive to continue providing its users with agile solutions that are fit for purpose and efficient, with a special focus on safety and ensuring compliance with regulatory and oversight requirements.

About EBA CLEARING and RT1

EBA CLEARING is a provider of pan-European payment infrastructure solutions. Founded in 1998, the Company is owned by 52 of the major banks operating in Europe and based on a country-neutral governance model. The payment systems of EBA CLEARING are pan-European by design and desire: they are developed in close co-operation with the Company's multinational user community and best-of-breed technology partners.

EBA CLEARING manages two Systemically Important Payment Systems, the large-value euro payment system EURO1 and STEP2, a pan-European payment infrastructure platform for mass payments in euro, which provides full reach to all financial institutions across Europe processing credit transfers and direct debits in euro. This means that more than 4,800 financial institutions in all SEPA countries are currently reachable via STEP2.

With the support of 39 funding institutions from across SEPA and its technology partner SIA, EBA CLEARING is currently implementing RT1, a pan-European real-time payment infrastructure platform for euro transactions. The system will be open to any AS-PSP adhering to the EPC's SCT Inst Scheme and handle instant payments in line with the scheme from its launch date in November 2017 on.

For more information, please visit www.ebaclearing.eu, or follow EBA CLEARING on [www.twitter.com/ebaclearing](https://twitter.com/ebaclearing) or <https://www.linkedin.com/company/eba-clearing>.

Detailed information on RT1 can additionally be found at <https://rt1.ebaclearing.eu>.

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