

# Who are the stakeholders in the instant payment revolution?

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## **Abstract:**

November 2017 marked the rollout of instant payment. Using instant payment, sums (initially capped at €15,000) can be immediately transferred to and from accounts. The money will be available in the beneficiary's account in less than ten seconds, and payments can be made 24 hours a day, seven days a week, every day of the year.

For the first time in the Single Euro Payments Area (SEPA), banking institutions will be executing near real-time transactions. The originator's account will be immediately debited and the beneficiary's account credited a few seconds later. The arrival of instant payment will involve making a number of changes to interbank systems, in terms of the management of payment flows, interbank liquidity and system availability. The launch of this new means of payment is taking place against a backdrop of major changes in payment usage linked to the widespread use of smartphones.

This new tool will harmonise instant payments throughout Europe, while boosting the growth of cross-border business transactions in SEPA countries. To this end, the European Payments Council (EPC) has issued a regulatory framework for implementing instant payment and published a rulebook in November 2016. It is up to stakeholders to determine the needs and requirements specific to their market segments.

## **Changes are already underway amongst market stakeholders**

### Clearinghouses

Clearinghouses, STET in particular, were part of the EPC working group that wrote the instant payment rulebook. The various drafts that preceded publication identified the changes that Clearing and Settlement Mechanisms (CSMs) needed to make to adapt to these new instant payments (SCT Inst).

As it turns out, every functional and technical aspect of CSMs are affected, since flows must be processed one by one, in real time.

STET is Europe's leading mass payment processor, offering clearing and settlement services for all payment instruments (cheques, SCT transfers, SDD Core (SEPA Direct Debit) and B2B direct debits, bank cards, etc.) through the CORE system (COmpensation REtail).

In 2016, CORE processed payments valued at €6.5bn, representing nearly 52% of total payments processed and cleared by European MSCs in the euro area. To date, CORE compensates nearly all transactions carried out in France and Belgium.

STET's teams began addressing the issue of instant payments starting in early 2016, and the topic fit perfectly into ongoing reflections on how to overhaul the CORE clearing and settlement platform. The emergence of instant payment is a major part of the overhaul of CORE2, the new clearing platform, which will feature new services and functionalities for banking institutions. These include unitary processing of mass payments, real-time clearing, 24/7/365 operation and fraud scoring, among others.

This project is also a chance for STET to integrate its two core businesses, clearing and authorisation, resulting from the 2016 merger with SER2S. Formerly a subsidiary of *Groupe Carte Bancaire*, SER2S carried out interbank routing of bank card authorisations in France. Its platform links more than 280 banks and is one of the leading European card authorisation platforms (it processes 6.4 billion transactions per year, with a 99.999% SLA (Service-Level Agreement) availability rate).

The merger brought together two major players in the sector with different skillsets in different areas: the world of real-time authorisation on the one hand, and clearing and settlement on the other. It was a response to market developments and anticipated the introduction of instant payments.

## Banks

Instant payment also poses many challenges for banks (which already invested heavily to upgrade their in-house systems during the transition to SEPA). The new SCT Inst has a significant impact on these developments due to its "real time" nature: existing payment infrastructures still work mainly in file mode and rely on off-duty maintenance periods that are incompatible with instantaneous payment processing.

Banks have several options: in-house development of a payment hub for SCT Inst transaction management, purchasing an ad hoc solution from an external supplier, or using a gateway to an outsourced SaaS (Software as a Service) solution. The banks will make their choice based on their strategy and fields of activities.

Whatever the choice, the arrival of instant payment will pose many challenges for banks: availability of the service 24/7/365, changing online and mobile user interfaces, message processing instead of batch processing, and changes to liquidity management.

These challenges are also opportunities for banks to modernise certain application layers and develop new services for their customers. These include mobile services for private individuals via a mobile app (P2P) enabling them to initiate instant payment. An instant payment offer (via other channels) for merchants (B2B) is also planned. Other uses are also expected, including instant payment via the Internet, at points of sale, etc.

By speeding up the availability of funds, instant payment will very quickly have to address fraud and play a part in AML efforts. Each participant in the payment chain – banks, CSMs, payment service providers (PSPs) – will have a key role to play in this respect.

## **Challenges of interoperability between Clearing and Settlement Mechanisms (CSMs)**

As defined in the rulebook, SCT Inst incentivises CSMs to become interoperable. This is an essential condition so that all banks in the SEPA area can be mutually reachable.

The European Automated Clearing House Association (EACHA) has published a document providing a functional and technical framework for the implementation of connections aimed at creating pan-European interoperability between CSMs for instantaneous payments.

The first version of the EACHA's efforts was published in November 2016. It was followed by bilateral discussions between STET and other European CSMs.

In parallel, the ECB announced the development of a settlement system for instant payments at the SIBOS (Swift International Banking Operations Seminar) meeting in Geneva in September 2016. This project has since been validated. As a result, the project to implement the Target Instant Payments Settlement (TIPS) system is already underway (with rollout scheduled for November 2018).

The TIPS system has the effect of facilitating European reachability: it offers organisations participating in the system the possibility of being reachable throughout the SEPA area, via a direct connection to TIPS (or via a CSM which is itself connected to TIPS).

## **New roles**

Instant payment issues are not limited to the development of a new technical platform for clearing houses. Indeed, this instrument is an opportunity for STET to offer new services to banks.

## **Clearing and Settlement Mechanisms (CSMs)**

Fully aware of this, STET is closely examining banks' needs for a "one-stop shop" service dealing only with SCT Inst: a single technical connection to STET (gateway) will allow banks to send all their SCT Inst flows to a single location, wherever the final recipient is located, with STET routing the flows to the recipient banks or other clearing houses where the recipient banks are reachable.

The TIPS connection will obviously be offered. STET acts as a technical service provider on behalf of banks participating in TIPS, with clearing and settlement procedures being TIPS' sole responsibility.

In addition, as with all new technologies, successful adoption of TBS Inst depends in large part on the ability to win consumers' confidence: immediate transfers of up to €15,000 can be a source of high risk for both consumers and banks. This requires investment in a sophisticated anti-fraud system.

In addition, STET will offer new value-added services, such as a proxy database for linking mobile phone numbers with bank details (Token, IBAN - International Bank Account Number), or the IBAN tokenisation service.

### Payment service providers (PSPs) other than banks

The new European directive on payment services (DSP2) has opened up access to the payments market, creating numerous business opportunities for new players such as PSPs (Payment Service Providers). PSPs are very interested in the arrival of instant payments, which will enable them to promote services to individuals and merchants (or even banks). Payment originators will thus be able to execute all types of transfers, including instant payments, without having to use their bank's interface.

## **The impact of instantaneous payment on other means of payment**

The impact of the arrival of instant payments on other means of payment is highly dependent on the extent to which this service is adopted by future users.

Already deployed in some European countries, rolling out instant payment in France has more to do with the Banque de France's willingness to do so than a need expressed by final consumers. But it must be said that while we cannot predict how fast it will be adopted by consumers, many favourable conditions are already in place: the need for instantaneity for both merchants and their customers, the widespread use of smartphones and the commitment of the digital giants (Applepay, etc.). The global business model and customer actions have yet to be defined by banks and the various market players. But while many cases of usage have been identified – P2P, B2B and even C2B – some banks remain cautious about the possible impacts on other means of payment, which could affect their bottom line.

Eight European countries already offer instant payment: Switzerland, the UK, Poland, Denmark, Sweden, Norway, Finland and Spain. In each one, the introduction of this new system is upending usages: in the United Kingdom, for example, 5% of payments (1.4% of the total volume) now go through the Faster Payments Service (FPS), which has become an established presence (and without "cannibalizing" bank cards, through which 68.6% of transactions are still carried out, for 1.1% of the total volume). In Sweden, the same trend

can be observed. At the end of 2015, one year after instant payment came online, more than half of Swedes were using Swish (the instant payment system) at least once a month. In Finland (50,000 users) and Spain (300,000 users in 3 months), exponential growth in the first few months of operation points to the same level of public interest.

As planned – and as requested by the European Payments Council (EPC) – 21 November 2017 will, for STET, be the official launch date of TBS Inst. It remains to be seen what marketing strategy banks will employ to roll it out.

## **STET**

STET was set up in 2004 at the behest of a group of French banks to develop a new platform to address the transformation and the challenges of SEPA implementation.

Drawing on years of experience and expertise, the CORE (COmpensation REtail) platform was developed by STET with the ambition of achieving an innovative payment platform for the future European market.

STET SA was founded on 1 January 2016, the result of a merger between the clearinghouse STET SAS and SER2S (the operator that routes bank card authorisations in France).

STET SA is now owned by six banks: BNP Paribas, BPCE, Crédit Agricole, Banque fédérative du Crédit mutuel, La Banque postale and Société Générale, and by CB Investissements (bank cards).

## **CORE**

CORE's high availability rate (99.999% since 2008) is based on a centralised model hosted on a highly resilient architecture that is comparable to RTGS (Real-Time Gross Settlement) systems.

Operational management and liquidity management are ensured by means of a treasury system accessible via a graphical user interface (GUI) available to all system participants. The settlement interface is based on the use of the TARGET2 system.

In 2018, the current system will be replaced by the new CORE2 platform, which will enable the processing of single transactions, near-real-time visibility over liquidity positions, new developments in the fight against fraud using traditional payment instruments (SCT, SCT Inst, SDD) and increased possibilities for managing settlement cycles.

## **The card authorization switching platform**

Real-time transaction processing, availability and resilience are the main features of the e-rsb network (interbank authorization network). E-rsb has a large number of functionalities that give it great flexibility, making it usable by customers for cross-border purposes (types of routing, EPAS-type European protocols) or for private use (real-time scoring to fight carrier and merchant fraud, protocol conversion).

Finally, the launch of a digital hub developed by STET in partnership with Oberthur Technologies and CB is a recent innovation to bolster token management.