

# Evaluating Instant Payments from a Card Industry perspective

**Lorenzo Gaston – SPA Technical Director**  
**Brussels April 28th**



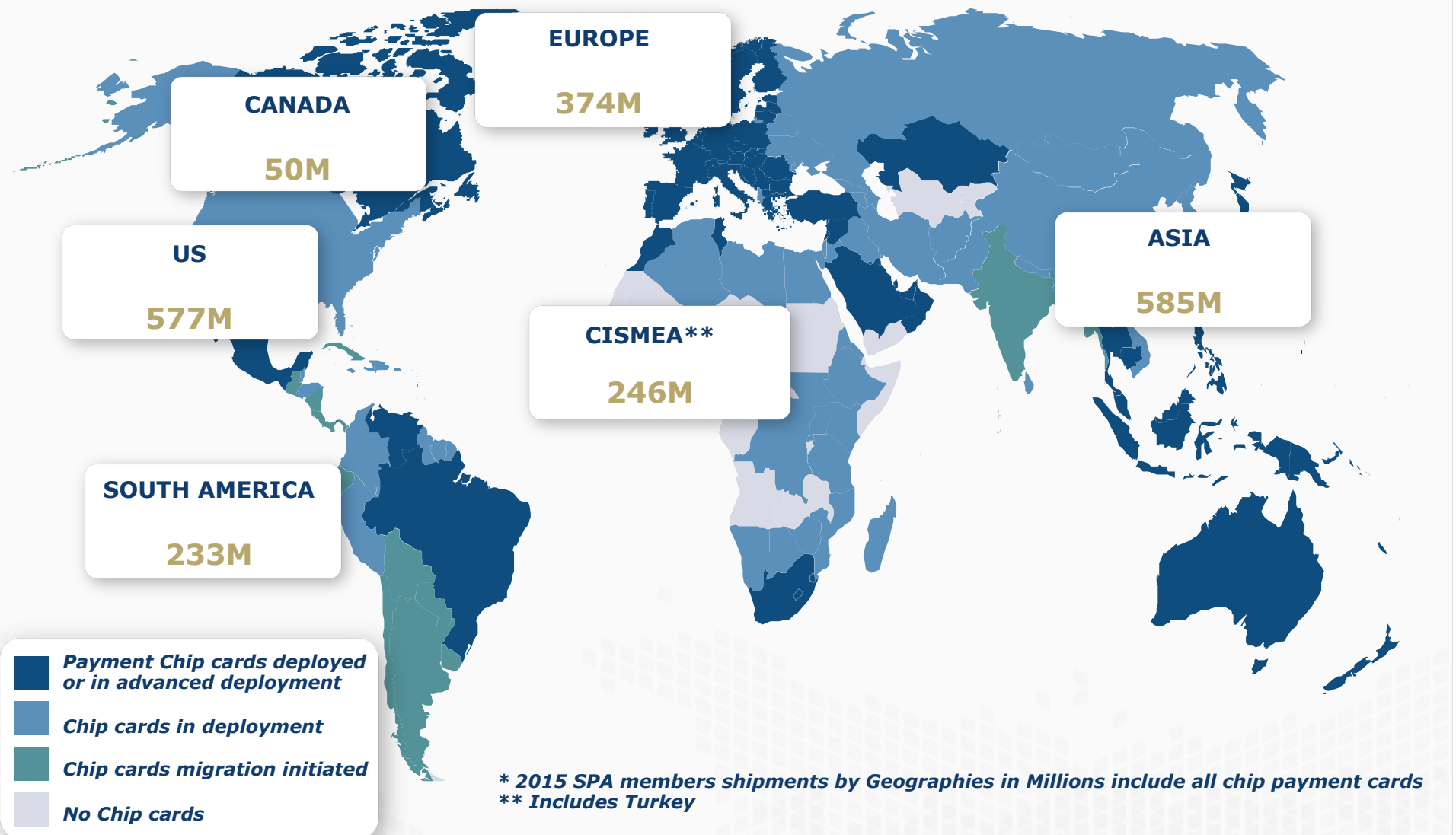
The Smart Payment Association addresses the challenges of today's evolving payment ecosystem. We offer leadership and expert guidance to help members and their financial institution customers realize the opportunities of smart, secure and personalized payment systems and services - both now and in the future.

Since 2004

### Members:



SPA shipments > 2 Billion units in 2015\*



# The path towards Instant Payments

## The support by Financial Regulators

- ▶ In 2014 in a vision paper the ECB invited the supply side of the payments market to achieve a competitive pan-European market for Instant Payments
  - Design & develop an European solution independent from overseas
  - But instant payments constitute already a fragmented market: SEPA 34 countries !

## The case for Instant Payments

- ▶ The benefit of an Instant Payment is that the payment amount will be immediately credited on the account of the beneficiary for P2P or P2B payments
  - As for any payment instrument, the number of transactions is boosted by interoperability
  - But for adoption instant payments must feature convenience + security + low cost

## A standard for interoperability

- ▶ The European Payments Council (EPC) published the 'SEPA Instant Credit Transfer Scheme Rulebook' in November 2016.
  - This Rulebook is the standard for processing all Instant Payments in Euro
  - Instant Payments are not mandated by law and use of SCT Inst Rulebook is voluntary

## Business models for an Instant Payment scheme

- ▶ The scheme will succeed when a **critical mass** of transactions is reached
  - What are the real benefits for stakeholders compared with existing payment instruments
- ▶ **Adoption scenarios and volume** estimates to be clearly identified but no specific use cases are targeted ( P2P ?, P2B ?)
  - But scheme agnostic in terms of payment initiation device and payment system (C&S)
- ▶ Everybody agrees for « low cost » .... But **who pays** in the end ?
  - Investments required on processing systems, acceptance points, issuance and promotion
- ▶ The Instant Payment scheme offers the opportunity to develop **additional services** and products around the payment itself
  - they should strengthen the merchants position, protect the data ownership
- ▶ Need to carefully **evaluate incentives** for AS, PSPs, acceptors and payers
  - See next slide

## Incentives for Instant Payments: SPA views

- ▶ 1. Incentives for **banks** ( AS PSPs)
  - Eliminate payment intermediators
  - Leverage existing infrastructures
  - Help moving to cashless
- ▶ 2. Incentives for **retailers** and/or individual beneficiaries
  - Improve cash-flow and minimize external financing
  - Payment with finality
  - The real incentive remains a free service
- ▶ 3. Incentives for the **payers**
  - Availability of the service 24/7
  - Useful in some scenarios: urgent payments
  - Control of when the debit is executed
- ▶ 4. Incentives for financial **regulators and governments**
  - Promote competition between retail payment instruments
  - Modernize retail payment infrastructures
  - Instant Payments are « frictionless », facilitate circulation of money

## Concerns about fraud and risks

- ▶ Any new payment instrument is to be evaluated against the **risk of fraud**
  - Competition between payment instruments makes sense if **user protection** is guaranteed
  - A specific **certification program** for Instant payments components is needed
- ▶ Instant payments speed up transactions and facilitate the circulation of money
  - Extra-pressure on the systems banks have in place to **monitor transactions**, look at the records of the payer and payee accounts and assess the risk associated to authorization
  - With increased transaction volumes, risk of **overflow of risk management systems**
    - They will have to inspect more frequently and in shorter time frames the nature of the payment.
    - Risk of payment authorization being made without having all the necessary information available
  - Instant Credit Transfers are **“push” payments with finality**, meaning it'll be more difficult to recover money back if the payment is repudiated
    - Somehow, the easier is to “push” money out, the harder it is to “pull” money back.
    - Proper strong authentication procedures needed for the payer, the payee and the payment order itself.
  - If a **mobile device** is used to pay, specific **security objectives** will be needed
    - Security Controls on the user interface, mobile ID and on the storage of payment credentials
- ▶ During the public consultation on the EPC Draft Rulebook last July, SPA expressed the need **to strengthen the security requirements** for instant payments
  - The new ISO 12812-2 “Security for Mobile Financial Services” provides useful insight

## Smart payment card industry position

- ▶ Instant Payments security issues are to be fixed
  - Even if not used as a payment instrument, the card technology solves most issues
  - The Security architecture for the Instant Payment Scheme to be carefully designed
- ▶ As a payment instrument, the card is also a « quasi-instant » payment instrument with almost zero fraud
  - International Card Schemes propose platforms for instant payments
- ▶ SPA welcomes efforts intended to promote real-time payments compatible with a high level of security. In the short-term, there are two ways to implement this policy:
  - Completing the EPC Instant Payment Rulebook, incorporating the card as a payment instrument and developing instant card payment systems, adapting existing Card Clearing & Settlement facilities
  - Protecting instant credit transfers application data in a hardware device tamper-resistant.



## Take away (I)

- ▶ 1. The rapid expansion of e-commerce and person-to-person payments has fueled demand among banks for real-time low-cost instant payments
- ▶ 2. At present the business case for banks remains uncertain in the SEPA Instant Payment Scheme
  - Charging models, Investment Paybacks, Uncertain adoption
- ▶ 3. There are challenges to be faced:
  - technical (connectivity, application and integration)
  - security (real-time risk evaluation, authentication and signature certification),
  - governance (liability shift, payback and disputed payments) and business model (charging model, investment) issues to be faced
- ▶ 4. Instant Payments require the use of appropriate controls and incident response procedures to face:
  - Rapidly evolving threat environment
  - Recover an instant payment inadvertently sent to a wrong payee

## To take away (II)

- ▶ 5. Card transactions & Instant Payments are competing solutions.
  - There is room for the frictionless coexistence for instance in a mobile digital wallet
- ▶ 6. Card technology remains the most efficient cost-security trade-off to protect data used to initiate an instant payment.
  - Yet, to compete with Instant Payment methods, card transactions must be faster and cheaper
- ▶ 7. Instant Payments bring risks for money laundering requiring controls to prevent and/or detect suspicious payments

## Instant Payment Systems Security - An SPA Paper - April 2017

🕒 Thursday, 20 April 2017



Instant payments persist as an issue in the retail payments industry - especially following the recent publication by the European Payments Council (EPC) of its Rulebook for the SEPA Instant Credit Transfer (SCT Inst) scheme. The Rulebook is set to be endorsed by European banks interested in the first SEPA cross-border retail instant payment system. An electronic payment, executed with an instantaneous transfer of funds and guaranteed service availability, is certainly an attractive payment option. This paper explores the key trends, analyses the pros and cons and sets out the SPA position regarding this new retail payment instrument.

 [DOWNLOAD PAPER \(162 KB\)](#)

 Like 0

 Tweet

 +1 0

 Share 42

## At [www.smartpaymentassociation.com](http://www.smartpaymentassociation.com)



One Address:  
[www.smartpaymentassociation.com](http://www.smartpaymentassociation.com)



[LOGIN](#) [SIGN UP](#)

[HOME](#) [ABOUT US](#) [NEWS & EVENTS](#) [PUBLICATIONS](#) [RESOURCES](#)

SHAPING THE  
**FUTURE OF PAYMENT**  
TECHNOLOGY



**Contact:** [info@smartpaymentassociation.com](mailto:info@smartpaymentassociation.com)