

SCT Inst- Front-end Solutions

Comment from EBA CLEARING for the Targeted Consultation on Instant Payments – June 2021

While a number of front-end solutions are in place in various domestic markets to support SEPA Instant Credit Transfers in specific circumstances, these only capture small parts of the overall European market. This means that when using instant payments in different contexts, European businesses and consumers today are still unable to count on a uniform customer experience or seamless, fully integrated solutions and processes. These pain points are particularly acute for corporates and merchants operating across Europe. Whether for over-the-counter, e-commerce or bill payments, payment cultures differ from country to country. This has created a disparate European payments landscape that can prove tricky for customers and merchants to navigate, in spite of SEPA harmonisation across the euro zone. As a result, consumers often find that merchants do not offer the payment solutions they are used to in their jurisdiction. Instead, they are faced with a variety of options that might require separate registration. This multitude of different country and regional payment solutions is not only a hassle for end customers, but also for the businesses receiving their payments. Corporates serving the European market have to support a wide diversity of payment solutions, especially in the e-commerce space. Some of these solutions are costly to maintain and, at the same time, merchants do not get to reap many of their embedded benefits, since the majority of these are targeted at consumers.

From a purely technical perspective, the easiest way to implement a pan-European payment approach might be to create a 'one-size-fits-all' end-user solution, such as a single wallet, and onboard the whole of Europe. This approach would likely employ a platform-type model, involving a payer, a payee and a central counterparty. Under this model, PSPs facilitate, but crucially sit outside of, the interaction. The issue with this approach is that where these solutions exist, they are usually provided as part of a centrally designed and branded product, with hardwired product characteristics and add-ons, which potentially stifle innovation and competition in the end-user space, especially when it comes to value-added services.

What is more, platform solutions would not so much harmonise existing national or local products as disrupt and potentially replace them — an undesirable result, given consumers have already become accustomed to them and merchants, PSPs and other service providers offering value-added services around these products have already invested significant resources. The challenge was finding a model that allows PSPs and other parties to create value-added services for their customers around the payment and that is compatible with the range of existing national and local front-end payment services on the market.

Rather than replacing the front end with a new layer, then, a preferable option is implementing an intermediate layer between the front and back ends. This serves as a 'translation' layer, bringing disparate local solutions into alignment and supporting the integration of overlay services. This works with the four-corner model of SRTP.

As the name suggests, a four-corner model consists of four parties: the payer, the payee and their respective service providers. The payer begins the process by choosing a request-to-pay-enabled solution at the checkout, be it over the counter or online, which then sends a request to the payee's service provider. The payee's service provider receives this request and sends an authorisation message via a secure infrastructure channel with verified payee identification and order reference to the payer's service provider. The payer's service provider asks for final confirmation from the payer and, once this is provided, the funds are sent to the payee's payment account. In this way, all information necessary to complete the payment is exchanged in a loop ahead of any funds being sent. This open and transparent approach fosters healthy competition in the end user solution space and offers PSPs the flexibility to tackle different payment scenarios, including payment at the point of

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interaction, e-invoicing presentation and payment, e-commerce redirect models and person-to-person payments.

For PSPs, the combination of request to pay and instant payment holds an enormous potential for the delivery of compelling end-user solutions and value-added services. With SRTP, PSPs can monetise their extensive instant payment and strong customer authentication (SCA) investments, as well as leverage the liquidity they set aside for instant payments by competing on products and services.

The request to pay authorisation layer based on a four-corner model only covers the interaction between service providers, allowing PSPs and other request to pay providers to offer their own solutions for end users that build on — and integrate seamlessly into — the existing messaging flow. This reintroduces competition on value-added products, such as credit facilities,

reconciliation interfaces and enterprise resource planning (ERP) integration for businesses, or rich end-user solutions with, for example, budgeting functions and ‘pay later’ facilities for consumers.