

The European Commission's targeted consultation on Instant Payments

Response from Stripe

Stripe welcomes this opportunity to contribute to the Commission's thinking on Instant Payments, as it advances its Retail Payments Strategy. We are delighted to engage with the Commission and to offer our insights. Given the questions in the Commission's targeted consultation are designed primarily for account servicing payment account providers (e.g. banks) we have outlined our perspectives in this paper.

About Stripe

Stripe is an Irish-American technology company that builds economic infrastructure for the internet. Businesses of every size – from startups to scaleups to public companies – use Stripe's software to accept online payments and simplify running an internet business. Founded by two Irish entrepreneurs, Stripe is dual-headquartered in Dublin and San Francisco. In the EU, we are regulated by the Central Bank of Ireland and passport on a freedom to provide services basis, currently serving users in 26 Member States. Stripe partners with the financial ecosystem, including established financial institutions, card schemes, and payment methods, and is closely integrated with payment rails – as a direct member of global card networks such as Visa, Mastercard, and American Express, and through direct connections with national schemes such as Cartes Bancaires. We are a financial partner of European banks including Deutsche Bank, Barclays, Santander and HSBC.

Our experience of account-based payments in Europe

Stripe supports a strong, diverse payments mix in Europe

Stripe provides an agnostic infrastructure layer, enabling European businesses to integrate seamlessly with more than 40 different global payment methods and thereby give customers their choice of preferred payment options. In doing so, we help businesses to grow, to reach customers across Europe and the world, and boost conversions.

We enable businesses all over the world (not only in Europe) to accept more than a dozen European payment methods, including SEPA DD, iDEAL, Bancontact, EPS, Giropay, Multibanco, BLIK, EPS and Cartes Bancaires. We have experience of integrating many account-based payment methods inside and outside Europe, and we have invested significant time and engineering resources to integrate closely with European payment methods such as Cartes Bancaires (France) and BLIK (Poland).

Technology is helping to realise the potential of the European Digital Single Market

Stripe is through its products helping to complete the Digital Single Market for online businesses, by making it much easier for European merchants to accept money in different currencies, locations and payment methods. This is especially relevant given the propensity of online businesses to sell across borders. Only 7.5% of EU SMEs sell online across borders. In contrast, online businesses excel at cross-border trade: 70% of all online businesses now sell internationally, and this figure is especially high in France (84%), Italy (78%), Spain (77%) and the Netherlands (76%).

Seamless integration with national payment methods is vital to the success of cross-border businesses

We know from our own experience how popular existing national account-based payment methods are with European consumers. This matters hugely for businesses selling cross-border - the very businesses who are grasping the opportunities of the Single Market. If, for example, a business wants to sell to consumers in the Netherlands, it needs to be able to offer iDEAL. Stripe recently enhanced its user experience for a number of European payment methods, to minimize user frictions and support more use cases such as recurring payments. The consequence of these changes is a significant increase in conversion rates: Stripe users adopting our new iDEAL integration saw a 42% uplift in conversion in the Netherlands, and users adopting our new Bancontact integration saw a 26% uplift on conversion in Belgium.

National payment methods also provide functionality for innovative business models. For example, card usage in a country such as Poland is minimal. For businesses with a subscription-based model, being able to access recurring payments via BLIK - the instant payments method of choice in Poland - can therefore be transformational.

The benefits of pan-EU instant payments rails

Optimizing pan-EU instant payments rails will enhance the range of payments experiences available to European consumers and businesses and make Europe less reliant on a handful of global schemes

While national methods are a central part of Europe's diverse payments landscape, there is increased demand from our users for pan-European and other cross-border forms of payment - and we are seeing an increasing need for our solutions and the underlying payments to support cross-border models.

We see two overarching benefits of a set of ubiquitous, truly pan-European instant payment rails:

1. **Enabling consumers and businesses to access and transmit funds faster by using instant payment rails directly.** This would benefit consumers, users and the entire financial ecosystem (including faster transmission of funds), also enabling institutions such as small banks and non-bank PSPs and their users to benefit. The primary benefit we see to our users is the ability to receive (and then send) accelerated payouts from their acquired funds. This is relevant in the standard acquirer model but becomes more beneficial when we consider innovative, internet-based business models such as platforms and marketplaces, where there is regularly a need for the seller or service provider to send and/or receive funds quicker within their platform ecosystem.
2. **Providing the foundations on which to build innovative pan-European payment solutions.** Underlying instant payments rails could form the basis for new, commercially-run schemes (such as the proposed European Payments Initiative) and overlay services (such as PSD2-enabled open banking). For example, in India UPI has created an underlying infrastructure for a range of payment methods, including wallets and bank-based solutions. Just as UPI has provided a solution suitable for the Indian market, its businesses and consumers, truly pan-EU and ubiquitous instant payments rails could provide the foundations for solutions tailored to the needs of Europe's businesses, citizens and wider economy.

We therefore believe that the underlying SEPA Instant rails, directly accessible by European consumers and businesses, and innovative overlay services and new payments solutions built upon them, can and should co-exist.

SEPA Instant has huge potential, but its limitations today are holding it back as a compelling proposition

Stripe sees significant benefits in being able to offer instant capabilities, and the features that can be overlaid by integrating directly with SCT Inst. We recognise the value in accessing the scheme as directly as possible. We want to see SCT Inst succeed which means being widely available across the EU. However, SCT Inst as it exists today has a number of limitations which hold it back as an underlying set

of payment rails for our users, and as the basis for innovative account-based payment solutions. We are supporters of the SCT Inst proposition and its development, but it needs to mature before it can become a core component of our European product suite.

1/ The widely divergent reach of SCT Inst across Europe makes it challenging to offer the seamless experience our users expect

Many of Stripe's European users are serving customers across Europe. Increasingly, they require ubiquitous payment solutions that drive consistent customer journeys. SCT Inst as it exists lacks the requisite level of reachability across Europe for two main reasons.

- **The lack of interoperability between the multiple Clearing and Settlement Mechanisms (CSMs):** Partly as a result of the challenges with introducing new systems across national central banks, there are many different SEPA Instant CSMs in the EU today, albeit only two that are positioned to provide pan-European capabilities - the EBA Clearing's 'RT1' system - the most widely adopted to date - and the European Central Bank's 'TARGET Instant Payment Settlement' ('TIPS') system. While some CSMs have achieved two-way interoperability, this is not ubiquitous. As a result some of the systems either operate as mechanisms for instant transactions domestically, or within their closed membership groups, or may have the ability to receive instructions but not send, or vice versa.
- **Disparate levels of country-by-country adoption:** Setting to one side the lack of interoperability between many CSMs, historical reachability is further impaired as bank PSPs have signed up for SEPA Instant on an ad hoc basis. In some cases they have opted to maximise the opportunity and integrate with both their local CSM and a 'pan-European' one but the other end of the spectrum also exists whereby in some markets there is very little adoption, if any.

While the level of reachability can be tracked on the basis of adherence of individual ASPSPs to SEPA Instant, a more accurate picture can be provided by cross-referencing this coverage with actual payment flows. We have undertaken this analysis for Stripe, comparing coverage with the volume of payouts to our users across Europe. Our data shows that, whether accessed through the RT1 or the TIPS CSM, reachability of our users can be as high as 99% (Estonia) and is in excess of 80% for a number of other European countries including Germany, France, Spain, Italy, Austria, Belgium, Finland, Lithuania and Latvia. In the case of Portugal and Netherlands, reachability is low (less than one-quarter of volume) through RT1 alone but in excess of 80% through both RT1 and TIPS. Conversely, for a number of other EU Member States (including Ireland, Poland, Greece, Romania, Malta and Cyprus), reachability is less than 1%. This wide disparity makes it very difficult to create a compelling experience for our increasingly pan-European users.

2/ Dependence on banks for indirect access to SEPA Instant restricts our offer to users

Stripe's aspiration is to be as close to the rails as possible, as this enables us to offer the level of functionality that our users expect. However, as a regulated E-Money Institution, Stripe is not able to join SEPA Instant directly (including for settlement) and as such we must do so indirectly via a banking partner. Accessing the rails through a direct member introduces supportability limitations, technical limitations, and operational challenges, along with often opaque cost structures. As a consequence, we are dependent on the risk appetite and capabilities of a banking partner, which limits the level of functionality we can offer and the users we can support. (This is especially relevant for users such as innovative internet-based businesses who may have been unable to access traditional banking services, and various models of payment intermediaries, such as money service businesses, investment and lending platforms, and buy-now-pay-later operators).

3/ Predictable costs are essential to drive adoption of new payment methods. The existing cost structure for SEPA Instant is also a significant limitation. Charging consumers a premium to send payments in real-time (and in many cases charging companies a premium to receive them) acts as both a disincentive for payers and payees to use the scheme and - crucially - undermines the utility of SEPA Instant as the underlying set of rails for innovative payment methods, including open banking. SEPA Instant - if ubiquitous and truly pan-EU - could provide the basis for innovative new payment methods with the potential to be superior to existing payment schemes with pan-European and global reach. However, low cost and predictable pricing is a prerequisite - both to leverage the benefits of SEPA Instant itself and as the foundation for new payment methods.

Recommendations to the Commission

Mandating adherence for ASPSPs is the surest route to achieve the ubiquity it needs to reach critical mass.

Whether achieved through regulation or incentivisation, widespread adoption of SCT Inst across ASPSPs is essential to ensure that the underlying rails offer the ubiquity required to underpin new payment systems and deliver the enhanced user experience, cost effectiveness and functionality necessary to rival alternatives (such as existing global card schemes).

The Commission should mandate ASPSPs to offer SEPA Instant as the surest way to facilitate the rollout of SEPA Instant across Europe, and thereby provide a set of rails on which innovative bank-to-bank instant payment methods can be built.

To be truly impactful, this needs to be accompanied by meaningful interoperability

Widespread adherence by ASPSPs to SEPA Instant, combined with the ECB's plans to ensure that all SEPA Instant registered participants are TIPS reachable by the end of 2021, should ensure

pan-European reach of instant payments. It is imperative to make sure this happens in a timely manner: we therefore welcome the ECB's recent confirmation¹ that all PSPs adhering to SCT Instant and reachable TARGET2 will also become reachable in TIPS by 21 November 2021. However, in order to establish a level playing field, indirect participants should be able to benefit from and implement 24/7 liquidity from the outset. As we outline below, recent statements from the ECB suggest this will not be the case.

Consumer protection should be embedded at industry level

Protections such as Confirmation of Payee - an account name checking service - combined with consumer education are important to have in place for instant account-based payments. For example, in the case of the UK, the introduction of Faster Payments in 2008 was followed by the growth of Authorised Push Payment scams, amounting to £456 million (€504 million) of losses in 2019.

We do not believe it is necessary to replicate the chargeback system common in credit card schemes for SCT Inst. Rather, we suggest that schemes should focus on protections such as confirmation of payee. These solutions should be rolled out at the industry level as that helps drive awareness, adoption, consistent user experience and in some cases may also prompt the harmonisation of local regulations (including on data protection) required to unlock this on a pan-European basis.

IBAN checking is a key part of the fraud toolkit but would benefit from EU policy action

This is a solution Stripe is keen to adopt for our users and their customers across multiple SEPA rails. To date however, finding an online solution that can accurately match both the IBAN and the name of the beneficiary across all SEPA markets has proven to be problematic. It is important that IBAN checking is not implemented in a way that discriminates against PSPs who rely on indirect access to SEPA Instant (and other account-based schemes).

We are hopeful the potential innovation possible under the PSD2 legislation will enable the data sharing that is required to solve this and the many other challenges PSPs face in the fight against genuine transaction errors and - more importantly - fraud. To achieve this goal however we believe there needs to be greater harmonisation in legislation (especially Data Protection) in order to access the necessary data and provide a consistent, pan-European solution.

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https://www.ecb.europa.eu/paym/target/tips/profuse/shared/pdf/faq_tips_and_pan-european_reachability_of_instant_payments.pdf Q1.5

Settlement times need to be even faster in order for SEPA Instant rails to compete with existing schemes

Today SCT Inst delivers close to simultaneous authorisation, clearing and settlement, with all stages occurring within ten seconds. However, merchants require authorisation to take place within a matter of seconds (<3 seconds): i.e. a guarantee they will ultimately receive the funds. Unless the timescale for authorisation can be reduced to under 3 seconds - or PSPs can find a way to bridge this gap through for example building risk models - SEPA Instant rails will not be able to support the payment methods designed to compete with existing schemes, slowing and hindering adoption significantly.

The Commission is right to consider the importance of liquidity management

In the discussions and analysis we have conducted to date, there are concerns that spikes in demand could lead to credit transfers not being processed. The primary causal factor being due to a shortage of liquidity, deriving from the restrictive liquidity windows that are in place in TARGET2 (i.e. no weekend top up facility). In principle, this should be addressed by the plans announced in July 2020 by the European Central Bank to ensure pan-European reach of instant payments by mandating that all SEPA Instant registered participants are TIPS reachable by the end of 2021. However, the ECB's recent FAQ on TIPS reachability states that the exchange of funds between TIPS and TARGET2 will be subject to the TARGET2 opening hours. As a consequence, we see the possibility where direct member PSPs could, through choice or limitation, be in a position where they cannot support liquidity management of their TIPS settlement accounts on a 24/7 basis. We would encourage the ECB and Commission to address this limitation, and create a level playing field between direct and indirect participants with a more consistent and economically viable solution for the whole market.

The Commission should consider the future needs of the European payments system

Many existing European payment systems settle in TARGET2, and SEPA Instant is going to settle into TIPS, a subset of TARGET2. Over time, we would encourage the Commission and ECB to consider the possibility of permitting netting across different payment schemes. This is important to reduce barriers to innovation - particularly as the Europe payments landscape is likely to continue to diversify over the coming years with the introduction of the European Payments Initiative and the possible introduction of digital central bank money to the retail payments ecosystem through a 'Digital Euro'. The integrity of individual payment systems - and the ecosystem as a whole - must be paramount: and so we would encourage the Commission and ECB to explore the merits and potential consequences of utilising the net positions of multiple payment rails operated by the European Central Bank / Eurosystem in order to better manage the volatility of liquidity requirements presented by instant payments.

In summary, Stripe supports diversity in payments: optimising pan-EU instant payments rails will provide better payments experiences for European consumers and merchants, and help to make Europe less

reliant on global schemes. Today SEPA Instant has a number of limitations, and lacks the necessary reachability to be the basis for truly pan-European solutions: in our view, mandating adherence for ASPSPs is the surest route to achieve the ubiquity it needs to reach critical mass. There are multiple, mutually compatible ways to achieve the Commission's goals. Technology is one complement to the Commission's objectives, helping to bring down barriers to the Digital Single Market by enabling businesses to offer local payment methods to customers, wherever they are in the world. Another is by continuing to develop a supportive policy framework in areas like Open Banking, and thereby stimulate innovation in order to create viable pan-EU alternatives to existing payment methods. We look forward to continuing to engage on these topics as the Commission progresses its Retail Payments Strategy, including the forthcoming Review of PSD2.
