

Open Finance Association Europe reply to the European Commission Targeted Consultation on Instant Payments

The following are the preliminary comments of Open Finance Association Europe (OFAE) ¹ with regard to the European Commission's targeted consultation on Instant Payments (the consultation), which was published in March 2021.

OFAE believes that instant payments must be ubiquitous and consequently have 100% coverage amongst retail banks, without which business owners and decision-makers cannot effectively operationalise and innovate against the certainty and consistency of the instant infrastructure. Moreover, we believe that it is particularly important that the European Commission sets out effectively how to promote and enable instant payments in the current context, as the COVID-19 crisis has accelerated the shift away from cash to non-cash payment types, as well as the shift from physical to ecommerce. Consequently, it is our view that instant payments have a key role to play in fulfilling increased service user demand for electronic payments and providing greater choice and innovation and they are to be free for consumers.

OFAE supports the European Commission's objective, as set out in its Retail Payment Strategy², to create the conditions that make it possible to develop instant payments and EU-wide payment solutions that are cost-effective and accessible to individuals and businesses across Europe. We hope that our input to the consultation will help enable the Commission to decide on whether EU coordinated action and/or policy measures are warranted in order to ensure the further development of instant payments offering and will help the Commission identify factors that would be relevant for fostering customer demand towards instant credit transfers.

We anticipate that the further development of instant payments should allow companies like the OFAE member companies to grow faster and offer even more innovative solutions. We would also hope that this will drive greater competition and customer choice and ultimately better customer outcomes.

We would like to respond to some of the specific questions addressed in the consultation, with the aim of outlining policy actions which we believe are needed in the context of Instant Payments to achieve a well-functioning and competitive European market for payments.

Issues for discussion under the consultation

Liquidity Management

2. In case of a sudden surge in the number of payment orders received by ASPSP for initiation of instant credit transfers, might there be a risk that instant credit transfers would not be processed within seconds because of shortage of liquidity at the level of that ASPSP?

¹OFAE is an API and Data-enabled Payments association, which aims at a 100% coverage of SEPA-instant payments in the EU. The following companies are the OFAE founding members: finAPI, Token.io, TrueLayer, Volt, WorldPay and Yapily

² <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52020DC0592>

TPPs would not necessarily have visibility with regard to the precise reason for the delay of a payment initiation, especially when due to liquidity management. However, we acknowledge that there is a significant reputational risk in such an event that TPPs would have to manage and they will have to rely on the information received from the ASPSP to provide the necessary information in time to be able to support their customers.

We would like to note at the same time that the introduction of Faster Payments in the UK leads to no such liquidity issues among banks and payment volumes simply moved from one set of payment rails (e.g. banks credit) to another (faster payments).

As regards the effectiveness of liquidity management tools of PSPs and relevant prudential requirements (such as Liquidity Coverage Ratio):

3. Are they sufficient to address the liquidity risk inherent to instant credit transfers?

OFAE does not consider that prudential requirements are necessarily inadequate as they currently stand. The issue is more around the surveillance and supervision of PSPs to ensure that they meet those requirements to avoid an outage as a result of insufficient liquidity.

4. Would they continue to be adequate in view of a potential increase in the volume of instant credit transfers? If not, what additional tools or requirements (or modifications to them) would be necessary?

OFAE supports the concept behind ensuring that payment transactions do not start failing as a result of insufficient liquidity but we do not support the view that higher liquidity requirements are the solution. Instead, better reporting and planning on behalf of the PSPs, as well as requiring contingency plans for such scenarios, are more likely to be effective.

5. What could be the sources of additional liquidity in case of a temporary surge in instant credit transfers?

N/A.

6. Would a more central management of liquidity within banking groups be conducive to effectively deal with situations of a temporary surge in instant credit transfers?

N/A.

Sanctions screening

7. In the last 12 months, what share of the following types of initiated payment orders could not be processed due to sanctions screening?

- Regular credit transfers [%]
- Card transactions [%], if applicable
- Instant credit transfers for domestic transactions [%];
- Instant credit transfers for cross-border transactions in the EU [%];
- Instant credit transfers as an overall % if you cannot distinguish domestic and cross-border transactions.

As far as OFAE members are concerned, the share was less than 5% for all the reasons cited above.

8. Which of the following solution(s) do you consider to be effective in reconciling instant credit transfers and the sanctions screening obligations resulting from the applicable sanctions legislation: (For each option the possible answers are: Effective; Neutral; Not effective; No opinion; Not applicable)

- Alleviated screening of transactions by PSPs involving clients vetted or white-listed beforehand; Effective
- No screening of individual transactions within the EU subject to an obligation for PSPs to at least daily check/update their clients lists against relevant sanctions lists (reflecting arrangements in place in some Member States which result in no screening of domestic transactions); Effective
- Other harmonised screening method, agreed among national competent authorities, with consistent calibration of screening rules and parameters; Not effective, as it would take time to implement.
- Maintenance of a common EU-wide list of false hits; Effective
- Use of the Legal Entity Identifier (LEI) for firms and digital IDs for individuals; Effective
- Employing advanced technologies; Effective. There are many highly sophisticated technologies that banks can employ to monitor transactions against sanctions lists. These technologies would be best because they would allow banks to take a risk based approach and they would not slow down instant payments.
- Other (Please explain how it would work and what advantages it would bring): Sanctions screening is the responsibility of the ASPSP versus the PISP. It is our view that sanction screening by the ASPSP should be conducted in the same manner for a PIS initiated payment as it is for a payment initiated from within the banks app by the payer.

Incorrect beneficiary

9. In the last 12 months, how many complaints/requests for refunds have you received from your clients related to:

- Instant credit transfers made to the wrong beneficiary by mistake (i.e. mistyped IBAN number);
- Regular credit transfers made to the wrong beneficiary by mistake (i.e. mistyped IBAN number);
- Instant credit transfers made to a fraudulent beneficiary (i.e. as a result of authorised push payments, when the consumer is manipulated into making an instant credit transfer to a fraudster);
- Regular credit transfers made to a fraudulent beneficiary (i.e. as a result of authorised push payments, when the consumer is manipulated into making a regular credit transfer to a fraudster).

Please explain your answer.

OFAE members, as TPPs, do not have visibility with regard to the number of requests for refunds unless their clients inform them.

10. Do you provide a service to your customers of verifying the match between the IBAN of the beneficiary and the name on the beneficiary account prior to the initiation of the transfer? Yes; No; I don't know.

Not at present - in the UK, this is checked under the confirmation of a payee scheme but it is undertaken by the ASPSP and not the TPP.

10.1. If so, for what kind of payments do you provide these services? N/A.

- for domestic instant/regular credit transfers only;
- for both domestic and cross-border instant/regular credit transfers;
- I don't know.

10.1.1. For what kind of domestic payments do you provide these services? N/A

- for instant credit transfers only;
- for both regular and instant credit transfers;
- I don't know.

Please explain why you do not provide such services for cross-border payments.

10.2. What challenges would you see to the extension of the use of the existing IBAN name verification solutions to PSPs across the EU? Please explain.

The challenges we can identify are the cost of implementation, the potential variability in the names held by different institutions, as well as consumer trust in using these services, especially if the service is unreliable or leads to many declined payments. OFAE believes that the number of incorrect beneficiaries would be dramatically reduced in a PIS transaction. Unlike an Instant CT initiated from a banking app where the user types in the beneficiary, beneficiary details are pre-populated by the beneficiary in the PIS initiation process, which will result in eliminating the problem of incorrect beneficiaries. As far as the matching of the IBAN with the beneficiary is concerned, a PIS initiated or request-to-pay initiated payment eliminates this problem, as aforementioned beneficiary details are pre-populated at the point of payment initiation.

OFAE believes that were the European Commission to decide to intervene in terms of regulating such matters, a distinction should be made between P2P PISP services where these matters are potential issues, and C2B PISP where these types of risks do not exist or are very minimal. Moreover, we would like to highlight that the additional KYC/due diligence done by C2B PISPs in onboarding merchants as part of the protection against malicious misdirection of payments (i.e. APP scams) avoids this risk on C2B PISP payments.

If you offer a service to your customers of verifying the match between the IBAN of the beneficiary and the name on the beneficiary account prior to the initiation of the transfer, please indicate:

10.3. What was the cost to put in place such a service (in euro)? N/A.

10.4. Are there running costs per transaction? Yes; No; I don't know. N/A.

If so, for what type of running costs per transaction?

- Fixed;
- Variable (depending on the volume of transaction).

Please provide an estimate.

10.5 Please provide an estimate of the drop of fraudulent transactions (i.e. as a result of authorised push payments) since the implementation of this service (in %). N/A

10.6 Please provide an estimate of the drop of misdirected transactions (due to an error in inputting the IBAN number by the payer) since the implementation of this service (in %).
N/A

Front-end solutions

11. As a PSP, do you currently offer to your customers front-end solutions with the following features. Please specify in the table below where appropriate:

- Allowing to initiate/accept regular credit transfers: at physical POI (No); in e-commerce (Yes); between individuals (P2P) (Yes).
- Allowing to initiate/accept instant credit transfers: at physical POI (No); in e-commerce (Yes); between individuals (P2P) (Yes).

Please elaborate on your above answers.

OFAE believes that the Commission should look at enabling PISPs to initiate credit transfers at point of sale. Currently this is blocked by a) the access being blocked to NFC chips b) the absence of an open regime or standards for QR codes at point of sale.

11.1. Do you offer multiple front-end solutions?

Yes.

11.2. In which context(s) can this/these front-end solution(s) be used?

- Domestically only;
- Domestically and cross border.
- Don't know/no opinion/not applicable.

11.2.1. If you offer multiple front-end solutions, please indicate which ones can be used domestically only, or domestically and cross border.

11.3. Do you offer this/these front-end solution(s) referred to in the question above to:

- Payers (to initiate transactions); Yes
- Payees (to accept such payments). Yes

11.3.1. If you offer multiple front-end solutions, please describe which ones are offered only to payers, which ones to payees and which ones to both.

N/A.

11.4. What were the initial investment costs to launch the solution(s) (in euro)? Please explain your answer.

N/A.

11.5. What benefits do you see in offering such solutions to your customers?

Customers should have the freedom to choose when and how they would like to pay. This could mean setting up regular transfers or one-off payments. The objective of such solution should include the use of instant CTs in ecommerce, at the point of sale, in P2P and B2B transactions. OFAE members support all four options, and that the front-end solution is offered to both the payer and payee. The payee must request the payment in some form (i.e., checkout process) and the payer initiates the payment. The benefits to customers are simple; the benefits of instant A2A payments, which result in faster settlement, lower cost, and payments which are more secure than cards. Again, we would like to stress that OFAE members believe that instant payments should be free for consumers.

12.1. If you offer a front-end solution to payers, what is the per transaction cost of offering:

- Front-end solution based on instant credit transfers (please provide, among others, a breakdown per cost component, such as scheme fees or other);
- Front-end solution based on regular credit transfers (please provide a breakdown per cost component, such as scheme fees or other);
- Debit card transaction (please provide, among others, a breakdown per cost component, such as scheme fees or other);
- Credit card transaction (please provide, among others, a breakdown per cost component, such as scheme fees or other).

N/A.

12.1.1. How is your entity remunerated?

- Through user (consumer) fees;
 - i. If so, as the fee per transaction;
 - ii. If so, as part of the overall payment account fee;
- Other (please specify):

The entity is remunerated through fees charged to our customers who are businesses. Our remuneration structure is based on charging a fee per payment consent that our businesses receive from their customer.

12.2. If you offer a front-end solution to payees (merchants), what is the per transaction cost of offering:

- Front-end solution based on instant credit transfers (please provide, among others, a breakdown per cost component, such as scheme fees, interchange fees or other);
- Front-end solution based on regular credit transfers (please provide, among others, a breakdown per cost component, such as scheme fees, interchange fees or other);
- Debit card transaction (please provide, among others, a breakdown per cost component, such as scheme fees, interchange fees or other);
- Credit card transaction (please provide, among others, a breakdown per cost component, such as scheme fees, interchange fees or other).

N/A.

12.2.1 How is your entity remunerated?

- Through user (merchant) fees;
 - i. If so, as the fee per transaction; Yes - as a percentage of the value of transaction.
 - ii. If so, as part of the overall payment account fee;

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OFAE would be happy to discuss these issues and their implications further in the near future, as required. If you need more information on any of the points raised above, please contact Monica Monaco at monacom@trusteuaffairs.com