SCT Inst —
WHAT SEEMS
THE SAME
IS VERY
DIFFERENT
EXECUTIVE SUMMARY

Europe is once again involved in a major payments transformation programme. Immediate payments, also known as instant or real-time payments, is coming to mainland Europe, with individual countries and the region as a whole now looking to implement new schemes.

Countries such as Spain, the Netherlands, Italy, France, Portugal, plus many more are all looking at country-domestic schemes, whilst the EBA are developing a pan-European scheme. These schemes will be based on the European Payments Council's new rule book “SCT Inst”, which is sometimes also called “SEPA Credit Transfer Inst”.

Immediate payments rejuvenates the customer’s experience and opens up new business and revenue opportunities. In the U.K., smaller financial institutions and FinTechs are clamoring to benefit from real-time access to the scheme, enabled with the introduction of new access methods, including aggregator services.

In this paper, we examine why immediate payments is so important to the growth of a country and how it differs significantly from the SEPA batch solution. We look at why financial institutions must re-engineer their back-office processes and customer channels to truly benefit from SCT Inst to ensure that market and product propositions remain commercially viable in this rapidly changing world.

1 BATCH BEGONE

Europe spent 14 years and billions of euros implementing the SEPA system. The solutions were often heralded as payment hubs that would revolutionise the financial institution's IT systems. All too often they became expensive to implement and failed to deliver on envisioned functionality and flexibility. Many have become siloed as they focused on SEPA batch payments only, rather than processing multiple payment types.

Now with immediate payments taking centre stage in Europe under the SEPA banner, it is prudent to see whether those existing systems can be re-used for this new payments type. To understand why that is unrealistic, it is important to analyse the differences between the “old SEPA” batch and the “new SEPA” real-time models.

PROCESSING CONSIDERATIONS

Immediate payments introduces two new types of payments that need to be processed, including:

- Single payments, initiated by a customer channel, with customers expecting immediate processing and confirmation. These are often referred to as attended payments.
- Unattended payments, will be overnight payment runs of scheduled credit transfers and won’t have a customer awaiting an immediate response.

Immediate payments has very different needs than a normal SEPA payment. The major differences include:
BATCH VS. SINGLE PAYMENTS
In the new SCT Inst world, instead of linked batches of payments as supported by SEPA, every transaction will require its own dedicated accounting, prioritisation, processing and settlement. The process to handle large volumes will change from a basis of batch file to a bulk file of individual payments which has implications for submission to the Immediate Payments scheme.

The processing involved with batch files starts with the typical technical interpretation and conversion to the required scheme format, but what is new is the requirement to break the file down to individual payments. The core processing scheme will not accept batches of payments as exists under SEPA. Although the customer product might support batch booking for reconciliation, this will need to be managed at the financial institution/service provider level rather than by the scheme. Any scheme support of batches will still result in single payments being submitted to the clearing services.

IMMEDIATE VS. DELAYED
For immediate payments, processing within the financial institution will need to occur in just a few seconds, with the clearing of the payment to the central infrastructure being timed to meet a three-second SLA.

However, SEPA transactions are processed within the financial institution in order to meet clearing and settlement cut-off times and settlement windows. This can often lead to a delay between acquisition of the payment, processing and the settlement of it.

Existing SEPA solutions will not be able to deal with the time-sensitive needs of immediate payments.

CHANNEL INTERACTION
Customers will expect their banking channels to provide access to immediate payments and with it the interactive, instant notification of end-to-end success.

In contrast to this is the experience around batch payments of current SEPA. Batches are often loaded to the channel solution and are kept together for transmission, processing and settlement. Channels only know about the success or failure of the batch as a whole, rather than the individual transactions that it contains. The current batch processes will not provide the service levels that customers will rapidly learn to expect, and so customer channels will need to change.

FRAUD PREVENTION
With any new service comes lack of customer awareness and knowledge, which can be targeted by criminals. Although the immediate payments services themselves will be secure, the risk of fraudulent account takeover will require financial institutions to take extra precautions.

The challenge is to provide secure payments processing while proactively recognising a potential fraudulent transaction before it happens. A real-time fraud scoring solution will be critical as, unlike batch processing, the settlement has occurred leaving no time for research and intervention.

Protection of customer payments is key to the much-desired ubiquity of an immediate payments scheme. Unless the customer believes it’s safe and secure, they simply won’t use it.

LIQUIDITY MANAGEMENT
For SCT Inst, the funding for the clearing and settlement of the payment comes from a central bank account.

It is now critical to keep a close and timely watch on the incoming and outgoing funds to ensure that they do not exceed the liquidity position in the settlement account. If they do so, this could lead to a financial institution unable to meet its obligations and refusing payments to customers in real time, regardless of the customer’s own account liquidity. With current SEPA processing, the maintenance of liquidity positions is less time-critical, as the funds transfer is not real-time.

SEPA INSTANT CREDIT TRANSFER (SCT Inst), A NEW RULEBOOK FROM THE EUROPEAN PAYMENTS COUNCIL (EPC), DEFINES EURO IMMEDIATE PAYMENT FLOWS IN RESPONSE TO THE EUROPEAN CENTRAL FINANCIAL INSTITUTION’S REQUEST FOR “AT LEAST ONE PAN-EUROPE INSTANT PAYMENTS SCHEME”. IT USES A SLIGHTLY MODIFIED VERSION OF ISO 20022 ALREADY IN USE FOR SEPA, BUT THAT IS WHERE THE SIMILARITY ENDS.
In addition to real-time monitoring of liquidity positions, special processing rules are needed to automate processing on weekends, at night or when the treasury or settlement mechanism is closed.

**EXCEPTION HANDLING**
The typical expectation for immediate payments is that, as with SEPA batch transactions, all the payments will be processed straight through. Any payments requiring exception handling will be immediately rejected back to the online customer or to the initiating process.

With immediate payments, a new model is emerging in which processing of the payment now includes both pre- and post-clearing and settlement exceptions handling that can lead to value-added services to customers.

The exception moment can now be actively used to re-engineer the service proposition benefiting both the customer and financial institution. Pre-clearing activity will include manual approvals of a payment at the point of acquisition. Financial institutions can now look to proactively implement customer service activities including approval, repair, cancellation and enrichment around the point of initiation to reduce rejections. The higher the transaction limit allowed, the more value-added services will be enabled. In the U.K. they started at £10,000, and it is now moving towards £1,000,000.

In batch processing, this integrated payments process flow is not achievable without incurring additional time and money sending it to different systems and paying for RTGS (Real-Time Gross Settlement).

Also, immediate payments are typically irrevocable. A payment sent to a wrong party cannot be recalled but has to be requested back. This has led regulators in the U.K. to implement special handling to give the customer their funds back immediately whilst the financial institutions settle the incorrect payment themselves. This inter-financial institution agreement is performed outside of the Faster Payments scheme.

This is different to the current SEPA batch offered “R” processing that enables refund, reject, recall and return processes on the payment. Another example of why current SEPA solutions and processes don’t fully meet SCT Inst requirements.

**TRANSACTION CONFIRMATION**
In a real-time world, consumers and corporate users expect to be aware of every transaction that is coming in or out of their accounts. This real-time information allows the customer to better plan their finances. For a small business it might mean the difference between being able to order more stock or having to wait for the overnight statement to arrive and them losing the business to a competitor.

Corporate customers will also want special filters and rules applied to their confirmations. They may not want all the confirmations for every small transaction (imagine a utility company with thousands of credits a day), but rather batched transaction amounts.

Batch processes typically only provide payment confirmations based on the processing completion of the batch. Flexibility of service provision is key to enable immediate payments.

**24-HOUR OPERATIONS**
Finally, the most important capability of immediate payments is the ability to operate all day, every day. True 24x7 capability with absolutely no downtime.

Authorisation of payments has to happen all day. This means that the core banking system needs to operate 24x7 or the immediate payments solution needs to offer stand-in authorisation to ensure that the payments can still be performed.

The SEPA batch solution allowed for the core banking system and customer service representatives to go off-line for hours every day; this simply won’t be possible with SCT Inst. With immediate payments, customers will notice any downtime and will quickly vent their poor experience and take their business elsewhere.

99.999% availability with active/active processing using a multi-site topology will be the normal processing model moving forward.

SEPA did introduce a new, cheaper way for consumers and companies to make and receive ACH payments across Europe. Domestic fees are charged for cross border payments, and the service level is consistent within the Eurozone. However, SEPA was evolutionary in nature with some incremental benefits to the parties involved.

Greater benefits to all parties await with immediate payments. The U.K. Faster Payments scheme went live in 2008. Since then, they have seen a marked increase in new payment services from financial institutions and new markets open up for new businesses.
Earlier, the different types of exception handling that immediate payments can introduce were discussed. This should not just be looked at as exceptions handling, but actually the opportunity for a financial institution to differentiate its service from its competition. Imagine a house or real estate purchase that can now include the mortgage documents settling outside of normal business hours allowing the customer to move on a Saturday. Would they pay a premium for that service? And could you risk the payment being rejected? What about offering specialist loan products geared up to help a customer during the expensive time of moving?

Different customer service levels will be welcomed by consumers and corporations alike as we move away from the traditional business hours for settlement. Merchants will also be able to take advantage of the new payments scheme. By using immediate payments rather than traditional card settlements, they will not only get their money faster, but can avoid interchange fees enabling a less expensive mechanism to accept payment. This will be valid for both online retailers, as well as traditional brick and mortar retailers. And with irrevocable and immediate clearing, the merchant is assured that the money is paid before providing the goods and services. This is of value and thus creates a potential revenue stream opportunity.

Financial institutions themselves have a unique opportunity to provide connectivity to a new immediate payments scheme for other financial institutions or to a financial intermediary. As a direct member, they can provide indirect services to these clients, and pass on the benefits of the scheme to others, whilst charging for the service. These “on behalf of” arrangements can allow them to grow revenues on the back of increasing business from their indirect members.

4 VALUE-ADD SERVICES

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Fraud prevention was also mentioned previously and will protect financial institutions and their customers from fraudulent activity. However, a side benefit of the analysis of the payments can actually help financial institutions to trend customer activity and provide services that suit their needs. Analysis of salary income against consumer outgoing payments could lead to short-term loans provided by the financial institution or specialist lending business. “Big data” analysis has many benefits that can help tailor products to specific customer types, or even individual customer needs leading to the improvement of the whole customer experience.

So does SEPA batch have a future after immediate payments? Yes, of course. SEPA batch provides a critical element in a diverse set of payment arrangements. It was expected that U.K. Faster Payments would have a detrimental effect on the volumes passing through RTGS (CHAPS) and the ACH (BACS), but in truth both schemes are now seeing higher volumes than ever before.

SEPA batch will continue to provide a high-volume, low-cost solution to settling non-urgent payments; however, the real innovation for payments in Europe is going to be focused on SCT Inst for years to come.

Financial institutions that implement a flexible real-time process across their business will enjoy new sources of revenue and provide a value-added service and experience to their customers. Make do and mend is no longer a viable option in the world of real-time banking.

The ACI Advantage

ACI solutions support immediate payments and SEPA Credit Transfers and Direct Debit processing. We have customers today using our immediate payment solutions to access U.K. Faster Payments, Singapore FAST, and the same solution is now being made available for the Australian NPP (New Payments Platform). We’re also working closely with The Clearing House and the U.S. Federal Reserve to ensure our customers are ready to support and benefit from new real-time payment schemes in the U.S.

We are global payment experts with experience in working with regulatory bodies and payment service providers to support all types of payment schemes around the world.

ACI Worldwide serves on the ISO 20022 Real-Time Payments Group, the Euro Banking Association (EBA) Instant Payments Forum, the European Payments Council Scheme Technical Forum (ESTF) and payments and security task forces for the U.S. Federal Reserve faster payments initiative. ACI chairs the International Payments Framework Association (IPFA) Rules Committee.
ACI Worldwide, the Universal Payments (UP) company, powers electronic payments for more than 5,100 organizations around the world. More than 1,000 of the largest financial institutions and intermediaries, as well as thousands of global merchants, rely on ACI to execute $14 trillion each day in payments and securities. In addition, myriad organizations utilize our electronic bill presentment and payment services. Through our comprehensive suite of software solutions delivered on customers’ premises or through ACI’s private cloud, we provide real-time, immediate payments capabilities and enable the industry’s most complete omni-channel payments experience.

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