



SEPA – SCT Instant Payments





In this fast-evolving financial landscape, the demand for instant payments is paramount. Expectations of businesses and consumers to make payments instantly are on the rise. The prevailing notion is that the time taken to initiate, verify, and settle transactions should be minimal. In a world where everything is instant, the movement of funds also needs to be immediate. SEPA Instant Payments stand out as a significant advancement within Europe's payment framework, enabling individuals and businesses to transfer funds instantaneously between bank accounts, irrespective of the banks or countries involved.



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1. Background:

SEPA originated in the early 2000s with the aim of establishing a unified payments market throughout the Eurozone. SEPA was introduced for credit transfers in 2008, followed by direct debits in 2009, and fully implemented by 2014 in the euro area. By 2016 it was extended to non-euro area SEPA countries. SEPA credit transfers enabled electronic transfer of funds in euros within SEPA area, but traditionally took one business day to complete. ^[1]

There are four SEPA payment processing schemes :

1

SEPA Credit transfers (SCT)
(launched in 2008,
Mandatory for banks)

2

SEPA Direct debit Core
(SDD Core) (launched in
2009,Mandatory)

3

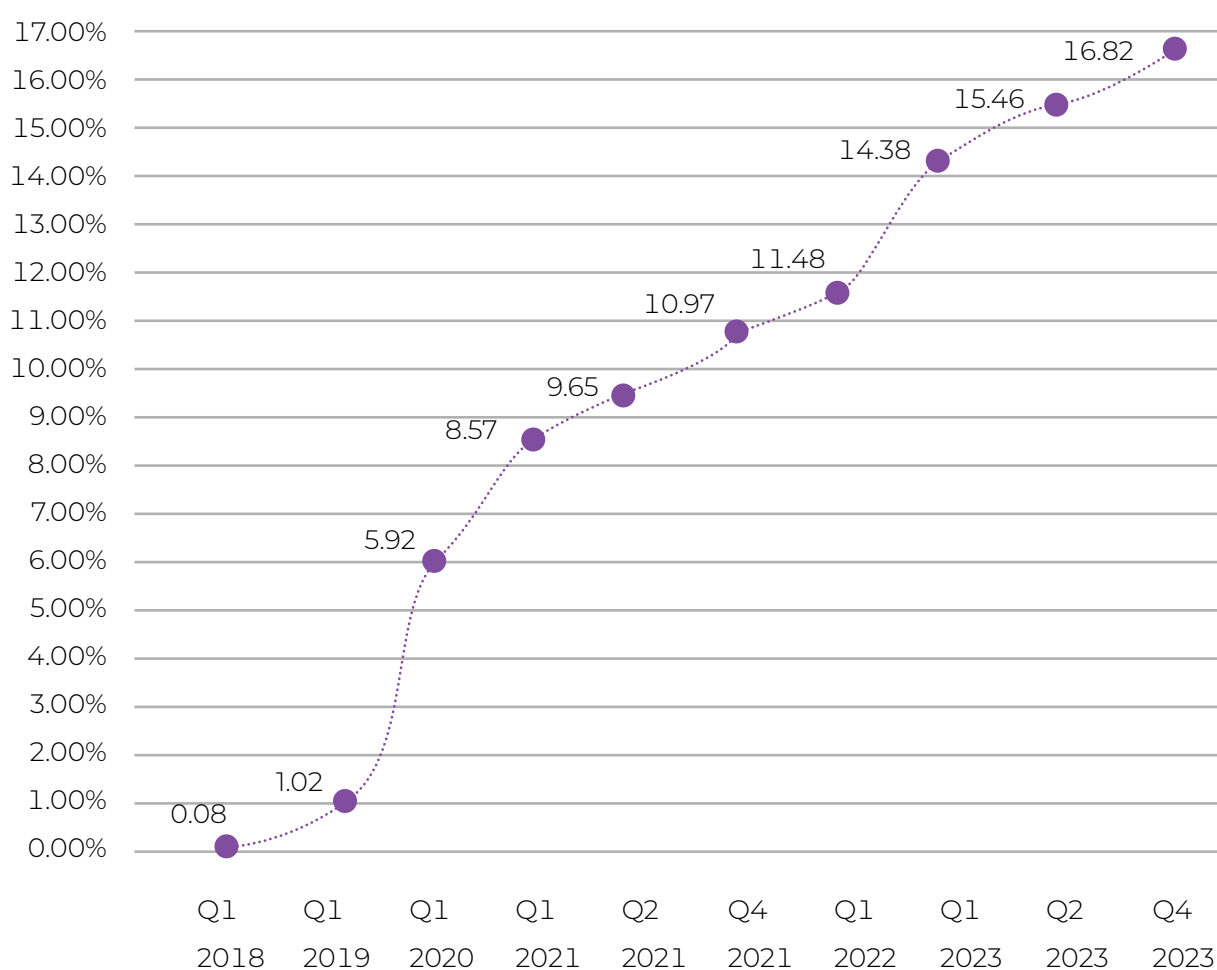
SEPA Direct Debit
Business-to-Business (SDD B2B)
(launched in 2009,Optional)





SEPA Instant Credit Transfer was launched in **2017** as an optional payment scheme for financial institutions. The volume of SCT Inst. (SEPA Instant Credit Transfer) transactions grew from **5.92%** in **October 2019** to **16.82%** in **April 2023** of the total credit transfers. During **H1 2021-H2 2022**, SCT Inst showcased a growth rate of **46.50%** in volume and **50.7%** in value. This remarkable growth was a clear indicator of the rising adoption and acceptance of instant payments in Europe.

ESTIMATED SHARE OF SCT INST VOLUMES IN TOTAL CT* VOLUMES



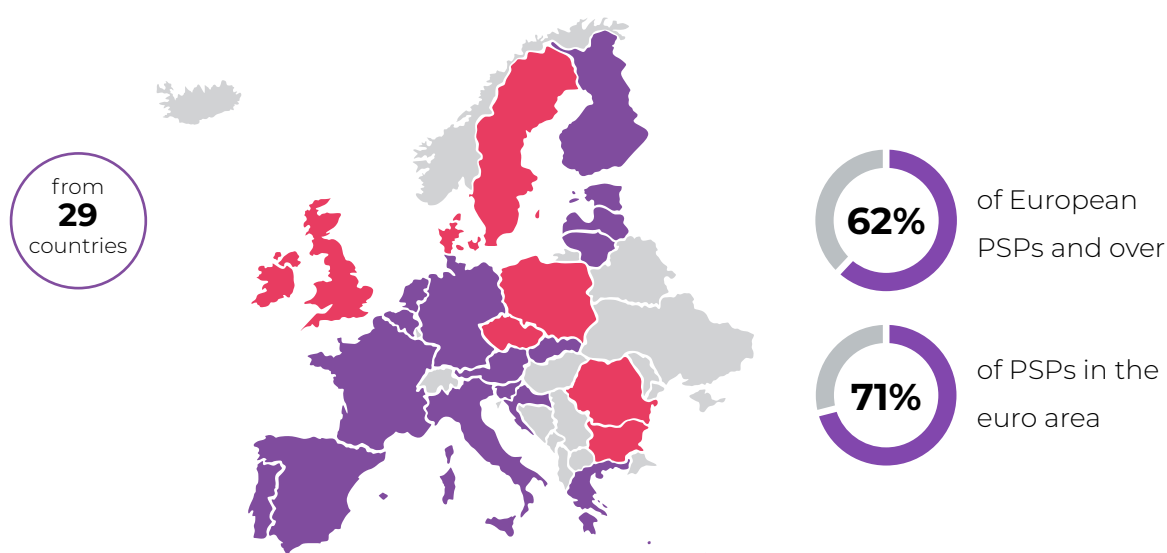
* SCT + SCT Inst.



2. SEPA Instant Credit Transfer (SCT Inst)

SEPA Instant Credit Transfer (SCT Inst) scheme, a real time payment system, was built on the foundation of existing SEPA Credit Transfer Scheme and launched in November 2017 by EPC (European Payment Council). SCT Inst payments are commonly used to initiate various transactions such as peer-to-peer payments, invoice payments, ecommerce payments, quick bills etc which demand an instant credit to the beneficiary's account.

Despite the scheme being optional, it has seen widespread accommodation with a total of 2292 payment service providers already joining the scheme.^[4]



- At least 1 SCT Inst participant and a majority of payment accounts in the country
- At least 1 SCT Inst participant but no majority of payment accounts in the country
- No SCT Inst scheme participants in the country

SCT Inst scheme largely enumerates those having the most significant volumes in their countries.

The European Parliament has pushed the envelope on this further and published the following deadlines for SCT Insta, as it tries to mandate the SEPA SCT Insta offering at no additional cost to the end customers.

EURO Currency	NON-EUR Currency
 Support Incoming SEPA SCT Inst - 9-Jan-25,	 Support Incoming SEPA SCT Inst - 9-Jan-27
 Supporting Outgoing SEPA SCT Inst - 9-Oct-25	 Supporting Outgoing SEPA SCT Inst - 9-Jul-27



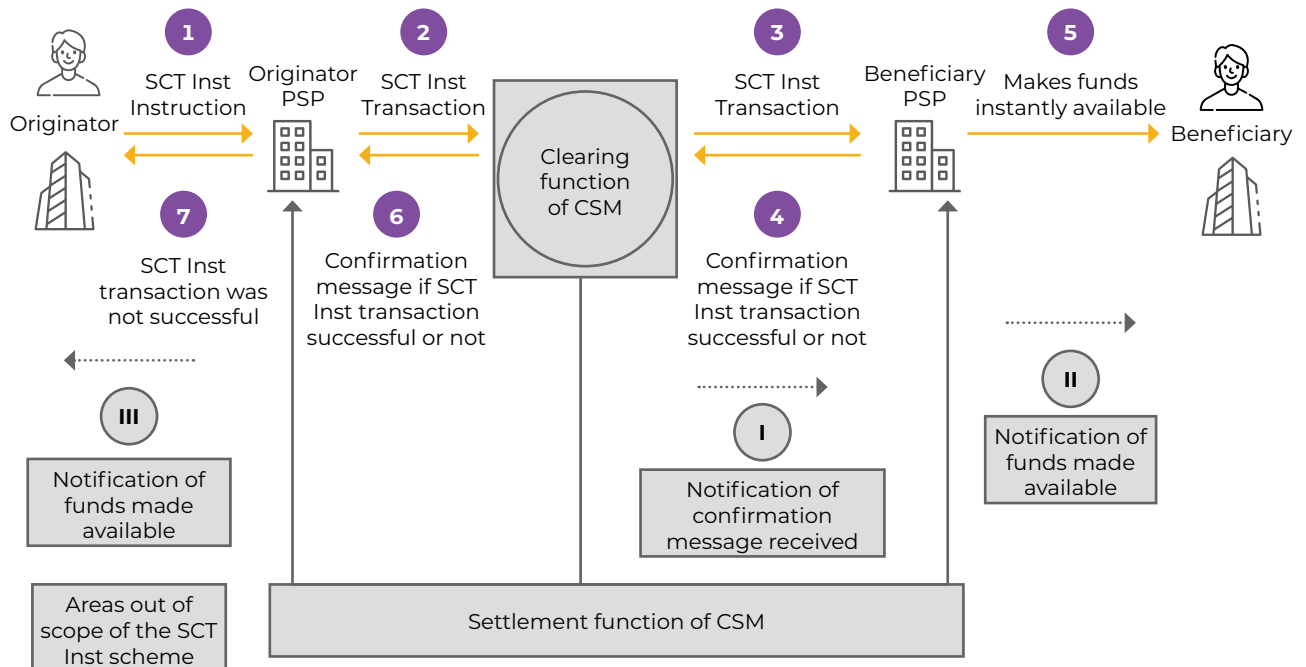
2.1. SCT Insta Features

- SCT Inst provide services for 24 hours a day and on all Calendar Days of the year;
- SCT Inst messages are XML based ISO 20022 compliant messages.
- Payments are made for the full Original Amount without any alteration.
- The Originator and Beneficiary are responsible for their own charges
- Maximum execution time for SCT Inst payment is 10 seconds and the funds are instantly credited to beneficiary's account.
- The maximum amount of SCT Inst is 100,000 euros.
- Payment initiation and reconciliation occurs on an STP basis;
- Rejects are handled Immediately in an automated way;
- The Remittance Information of 140 characters and End-to-End ID of 35 characters supplied by the payer are forwarded in full and without alteration to the beneficiary

Cut Off time : *SCT Inst services are available 24/7 ,365 days a year, hence no cut off Time for SCT Inst*



2.2. Workflow Model

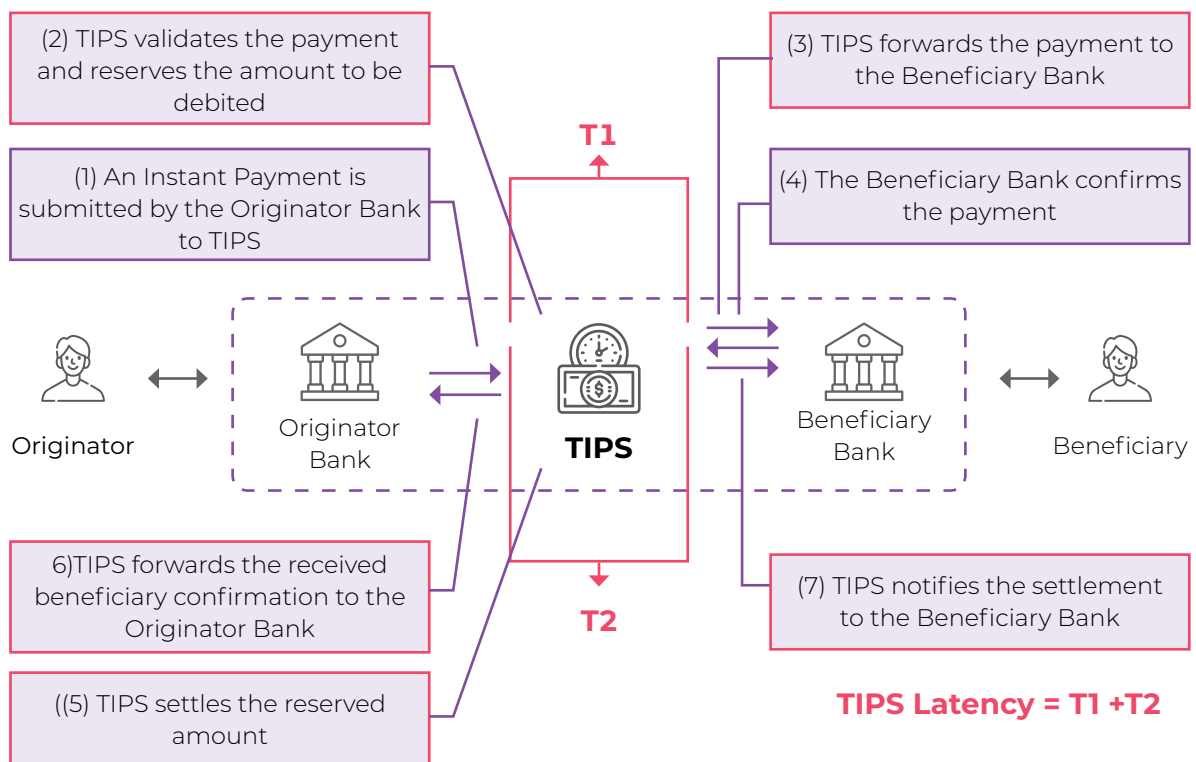




2.3. Clearing & Settlement Mechanism:

TIPS (Target Instant Payment System) is the clearing and settlement mechanism for the SEPA credit instant payments. TIPS is an extension of TARGET2, a system designed to settle SCT payments. With a processing time measured in milliseconds, TIPS can settle up-to 2,000 transactions per second. It is designed to settle payments instantly round the clock without any cut off time. TIPS currently settles transactions only in Euros. However, TIPS can allow settlement in central bank money in other currencies too.

The settlement of an instant payment in TIPS



The latency of 99% of instant payments processed by TIPS is below or equal to 5 seconds



TIPS processes every Instant Payment according to two settlement stages:

- ▶ The first notifies the Beneficiary Participant after having reserved the funds on the Originator Participant account by creating a cash posting
- ▶ The second settles the reserved amount after TIPS has received the confirmation that the payment has been accepted by the Beneficiary Participant or Instructing Party

In case of a negative reply from the Beneficiary Participant, the reserved sum is released, and the same amount is made available to settle other instructions on the same account. TIPS rejects any payment that is not settled within the configured timeout period.

2.4. SCT Inst R-transaction:

During the process of sending and receiving payments, certain transactions might require exception handling. At any point of time in the payment process, if any problem occurs then the R transactions are sent to handle the exceptions. R transactions include Reject, Recall and Request for Recall by the Originator (RFRO). All R-transactions are channeled through the same CSM and within prescribed timelines as per SCT Inst scheme Rule Book. For all R transactions, it is mandatory to use the appropriate reason codes specified in the SCT Inst scheme. Reasons for R transactions could be Beneficiary's account blocked or closed, Incorrect account number, Duplicate payment etc.



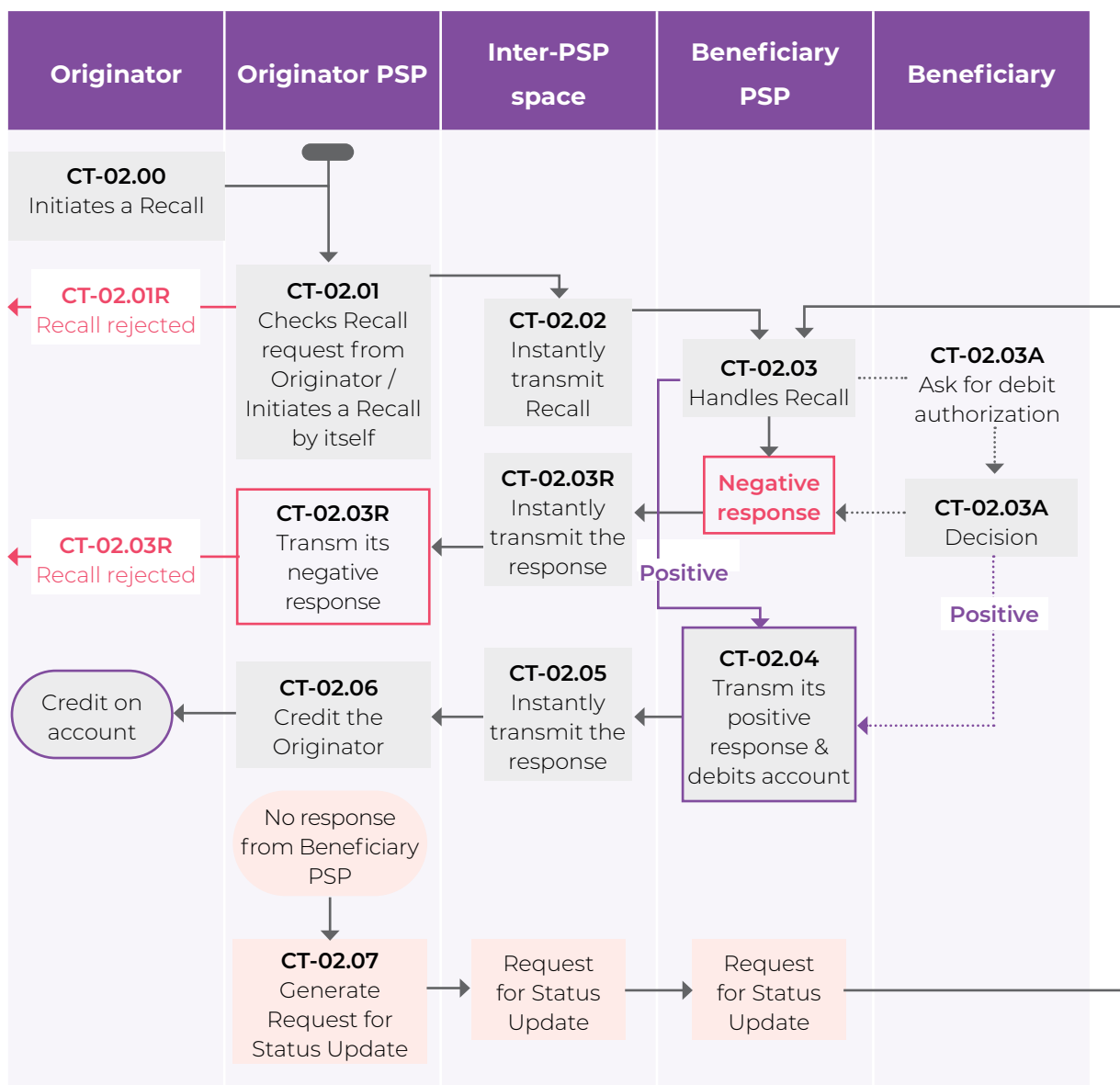


2.4.1. Recall

An SCT Inst Recall occurs when the Originator PSP requests to cancel an SCT Inst Transaction. The Recall procedure can be initiated only by the Originator PSP which may do it on behalf of the Originator. Prior to initiating the Recall procedure, the Originator PSP must check if the SCT Inst Transaction is subject to one of the following reasons only

- Duplicate sending;
- Technical problems resulting in an erroneous SCT Inst Transaction(s);
- Fraudulent originated SCT Inst Instruction

Recall message is routed through the same path taken by the initial SCT Inst Transaction, with no alteration of the data contained in the initial SCT Inst Transaction.



If the Recall is initiated for the reason - a Duplicate transaction or technical problems, the recall request must be sent out within 10 Banking Business days. If the reason is Fraudulent originated transaction, then the recall can be initiated within the period of 13 months following the execution date of initial SCT Inst transaction. Beneficiary PSP is free to collect fees on the transaction.

The Beneficiary PSP must provide the Originator PSP with a response, either positive or negative, to the SCT Inst Recall within 10 Banking Business Days following the receipt of the SCT Inst Recall from the Originator PSP. Beneficiary bank can collect charges from the Originator Bank and hence the returned amount may differ from the original amount.

2.4.2. Cancel

If the Originator or Originator Banks recalls the message before the dispatch, then the message will be considered as cancelled message. The original message status will be marked as cancelled and the entries will be reversed. Originator may cancel the messages due to reasons such as Duplicate payment, incorrect IBAN, Incorrect transaction amount etc.

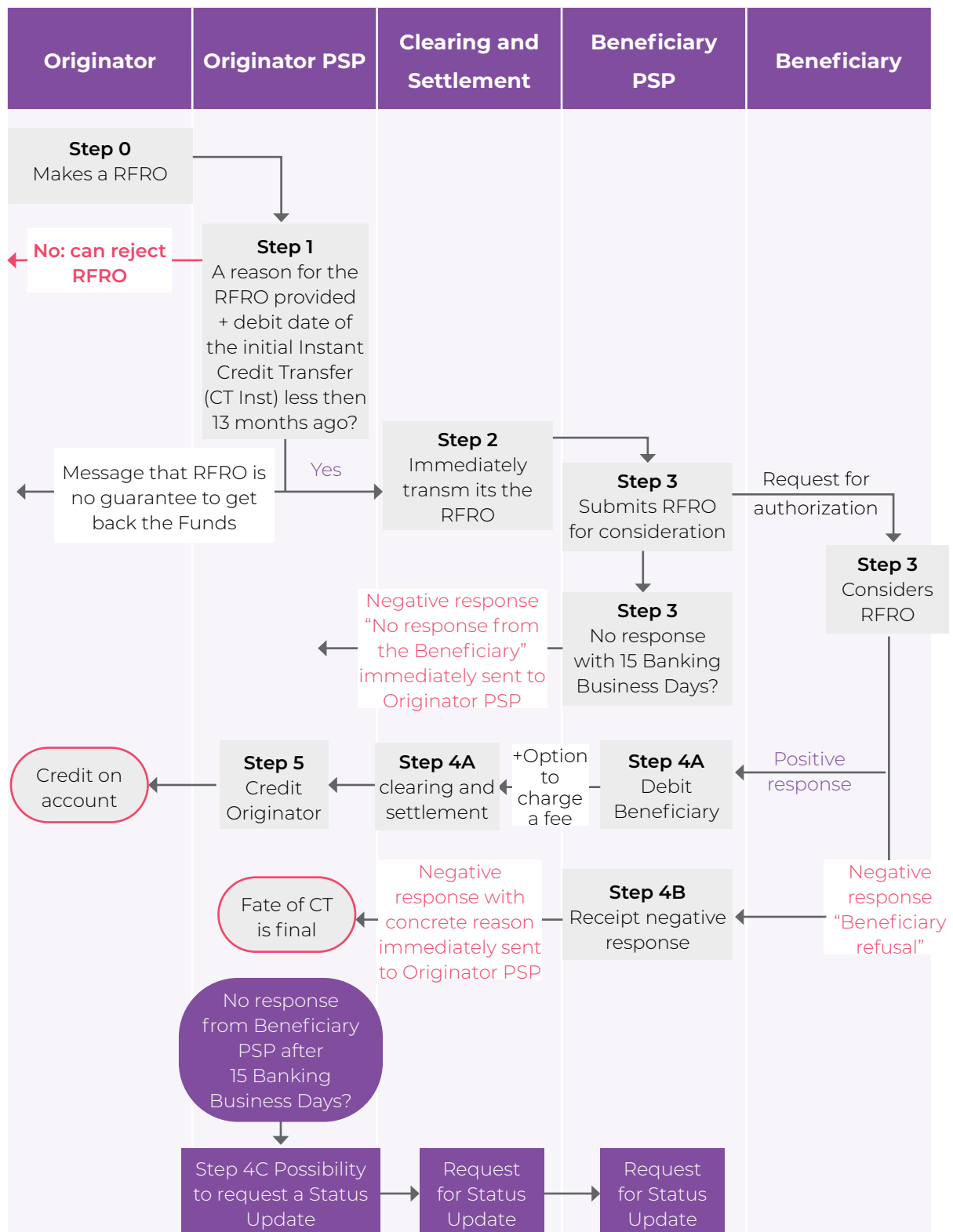
2.4.3. Request For Recall by the Originator-(RFRO)

Request for Recall by the Originator is initiated by the Originator Bank when an originator has requested to receive the funds back of a settled SCT Inst transaction for reasons other than Duplicate transaction, technical problems which has resulted in erroneous transaction or fraudulently originated SCT Inst Transaction. Refund of funds from Beneficiary 's account is only based on beneficiary's consent whether to return the funds back to the Originator.

The RFRO message is routed through the same route in which the initial SCT Inst transaction was sent and the RFRO message should contain a reason code for the request made. The Originator PSP has the choice to send out the Request for Recall by the Originator either Instantly or not. The Beneficiary PSP must send its response to a Request for Recall by the Originator within 15 Banking Business Days following the receipt



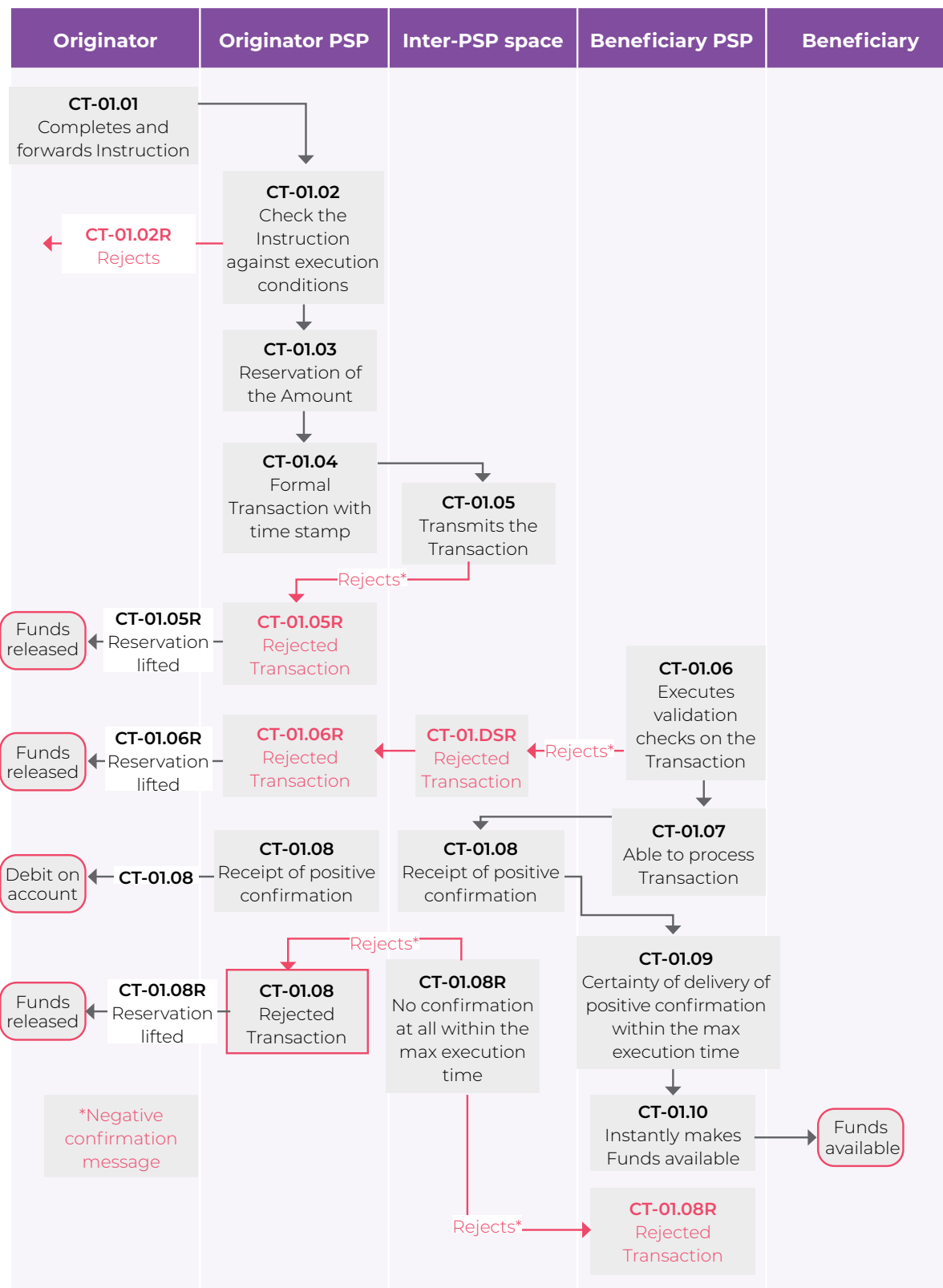
of the Request for Recall by the Originator from the Originator PSP. Each party in the Inter-PSP Space must send the concerned Request for Recall or Response to the request, as the case may be, instantly to the following party in the Inter-PSP space.





2.4.4. Rejects

A 'Reject' of transaction occurs when an SCT Instant Transaction is not accepted for normal execution under the Scheme, due to validation failures or delay in receiving the message within the time-out deadline.





Transactions gets rejected from the Originator PSP due to reasons such as -

- Account identifier incorrect (i.e. invalid IBAN)
- PSP identifier incorrect (i.e. invalid BIC)
- Duplicate payment
- Time-out – maximum execution time has been exceeded
- Amount exceeds the maximum authorized amount for SCT Inst

Rejects from the part of Beneficiary Bank may be due to the following reasons:

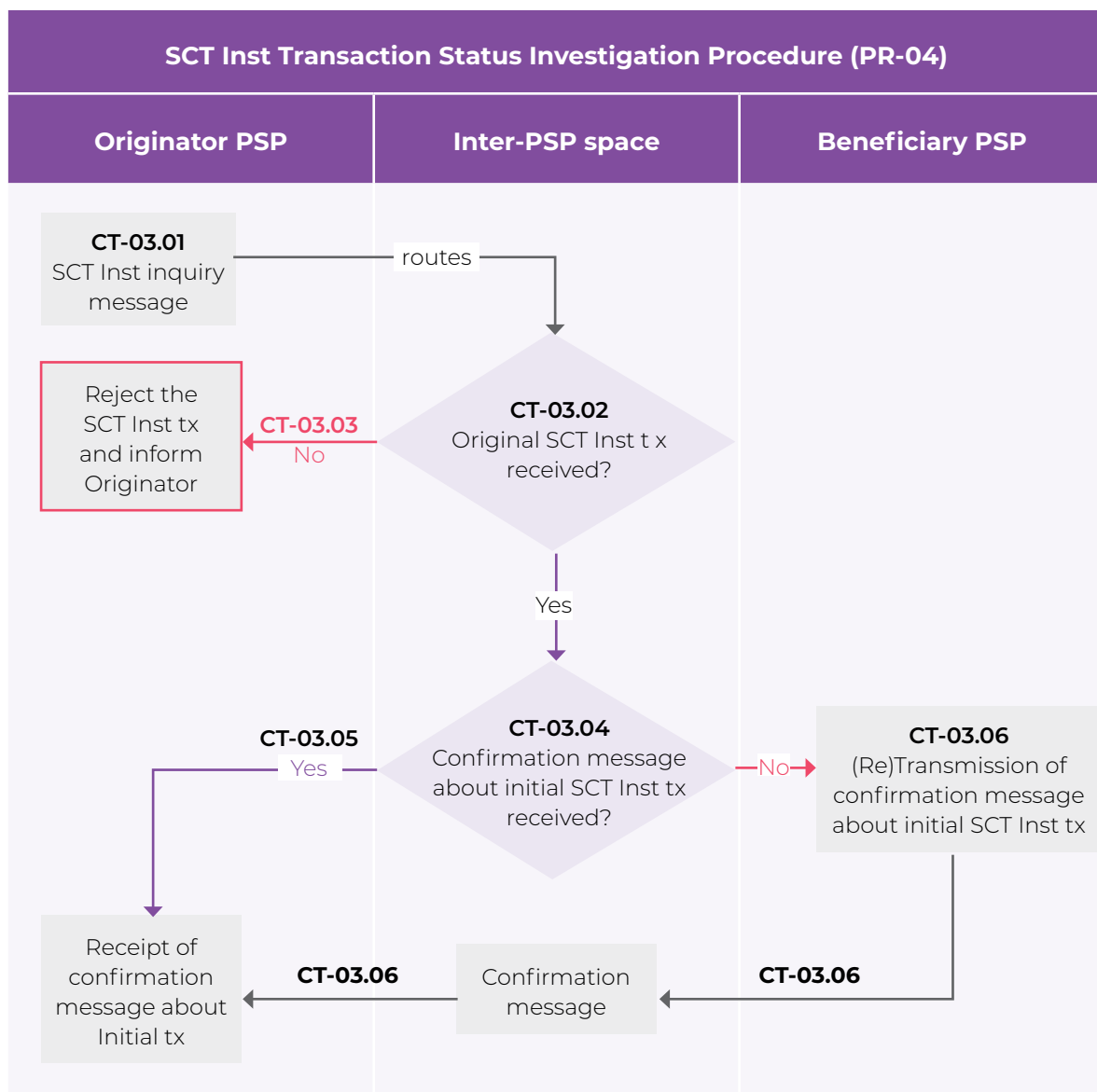
- Account address invalid
- Account blocked; reason not specified
- Account closed
- Account identifier invalid (i.e. invalid IBAN or account number does not exist) etc.

Reject messages contain a reason code by the CSM or beneficiary bank and should be sent within the maximum execution time. The positive or negative confirmation message received or generated by the CSM of the Beneficiary PSP must reach the Originator PSP within 5 seconds. The Beneficiary Bank sends a negative confirmation message with the appropriate reason code to its CSM. If the Originator Bank receives a negative confirmation message regarding the SCT Instant Transaction, the Originator Bank cancels the SCT Instant Instruction and revokes the reservation of the Amount on the Originator's account. Transaction failure will be immediately reported to the Originator with a reason.



2.4.5. Investigation Messages

If no confirmation message is received by the Originator PSP within the time out deadline, Originator PSP can send an investigation message to the Beneficiary PSP through the same path as an inquiry to the initially sent SCT Inst transaction. Once the investigation message is received, the Beneficiary PSP must instantly send the confirmation message to the Originator Bank.



3. SEPA SCT Instant Payments Benefits

Fast and convenient: SEPA Instant payments are faster as funds get credited in less than 10 seconds. Customers need not wait for hours or a day as in other traditional bank transfers.

Security and transparency: As the payments are instant and settled in real-time, payments can be tracked easily as the messages have standardized payment information. It also reduces the risk of errors and fraud.

Anytime availability: SCT instant payments offers payment service ,24/7/365days a year. Customers, especially businesses who are in different countries with different time zones, benefit more as there are no time constraints for fund transfers and need not be affected by the cut off time of banking schedules.

Support for Digital Economy: SCT Inst payments streamline financial transactions, making them flexible for various needs like emergency payments, e-commerce payments, and quick bill payments. They seamlessly integrate with other payment solutions like QR codes and SEPA Request-to-Pay, providing users with a broader spectrum of payment choices.





Verification of Payee (VOP) Banks and payment service providers must confirm whether the IBAN matches with the name of the beneficiary and notify the payer of a possible mistake or fraud before the payment is sent. Upfront verification of beneficiary helps to expedite the payment process. This provides safe and secure payment to the beneficiary thereby reducing the chance of fraudulent transactions. It will be more beneficial for payments for Gig services or for any emergency payments whereas the payee will be confirmed upfront.

Foster economic growth: Real time settlement of instant payments supports cash flow management for businesses. Smooth and uninterrupted movement of funds ensures liquidity in business enabling better financial planning for business expansion and potentially reducing dependence on expensive short term financing solutions.



4. SEPA SCT Instant Payment Challenges



1. Fraud/OFAC compliance: SEPA Inst payments poses challenges for conducting comprehensive fraud checks and OFAC (Office of Foreign Assets Control) screenings within the short processing time of ten seconds. These checks typically involve verifying transaction details against databases of known fraudulent activities or individuals/entities subject to sanctions. Hence additional security measures to be adopted by users and banks to prevent fraudulent transactions when using SEPA Inst.



2. Technical challenges: Implementing SEPA Inst may necessitate significant updates to existing payment infrastructure and systems, potentially requiring substantial investments in upgrading technology and resources. An SCT instant payment transaction undergoes several validations and authentications of both the payer and payee before being forwarded to clearing. Fraud checks, AML, OFAC, and compliance checks must be conducted. Banks' internal systems communicate with external interfaces, and the transaction proceeds to clearing based on the responses received. Completing these time-consuming validations within ten seconds would only be feasible if the infrastructure is adequately equipped to handle the process.



3. Disadvantage Smaller Financial Institutions: While the higher fees for SCT Inst payments is mitigated by the volume – for example Bundesbank's SEPA Clearer is bulk file with up to 100,000 transactions costs only €0.0025^[7], cost and volume is inversely proportional. SCT Inst therefore causes higher direct and indirect costs for financial institutions, which ultimately have to be passed on to the customers. A particular disadvantage arises for small financial institutions, as they must spread thin. This EU regulation will only enable and entrench larger players and smaller Fis would be at a disadvantage. ^[3]

5. SEPA Schemes & ISO20022

European Payments Council (EPC) played a pivotal role in implementing SEPA payments and was instrumental in SEPA Schemes adoption of ISO20022 message format, which has now become the de facto format for the financial world. SEPA Schemes adhere to ISO20022 message format, which provides a structured and standardized way to exchange payment-related information between financial institutions and payment service providers.

On November 14, 2023, EPC published a new version of ISO 20022, version 4.0, based on the 2019 version and this new standard will take effect on March 17, 2024. SEPA SCT Insta is expected to reap the full benefits of its intended creation by utilizing V4 of ISO20022. The revised version 4.0 provides more transparency and convenience to the users as well as PSPs in processing the transactions by providing structured address fields for payers and beneficiaries, providing a Unique Transaction Reference (UETR) as an extra option for payments among other changes.^[4]





Data elements	2019 ISO version
Time stamp element	Supports the provision of a future date & time
Address of payee /payer	To deliver structured address details about the payer and the payee
Proxy/Alias Information	Supports the use of proxy/Alias information (e.g., phone number, e-mail address) in the C-to-PSP space.
LEI (Legal Entity Identifier) BIC OR BEI	Inclusion of legal entity identifier (LEI) as an alternative identifier for a non-private party (any organization) BIC /BEI replaced by Any BIC
Additional Remittance Information	Under remittance information provides additional information about tax payments
Request to Pay services	Supports the use of Request-to-Pay (RTP) services
Unique reference Number	Provides a Unique End to End Transaction Reference (UETR) as an extra option for payments. This allows payment service providers to track where the payment is in the payment chain

SEPA Schemes and ISO20022 standards have been in lockstep with some key changes being linked.



SCT Inst FIToFICustomerCreditTransfer V8 – pacs.008.001.**08**
(from **March 17, 2024** this version will replace **V2!**)



Positive response to a recall / request for recall by the originator
(camt.056.001.01) – pacs.004.001.09 (From November 2023, this version replaces V2!)

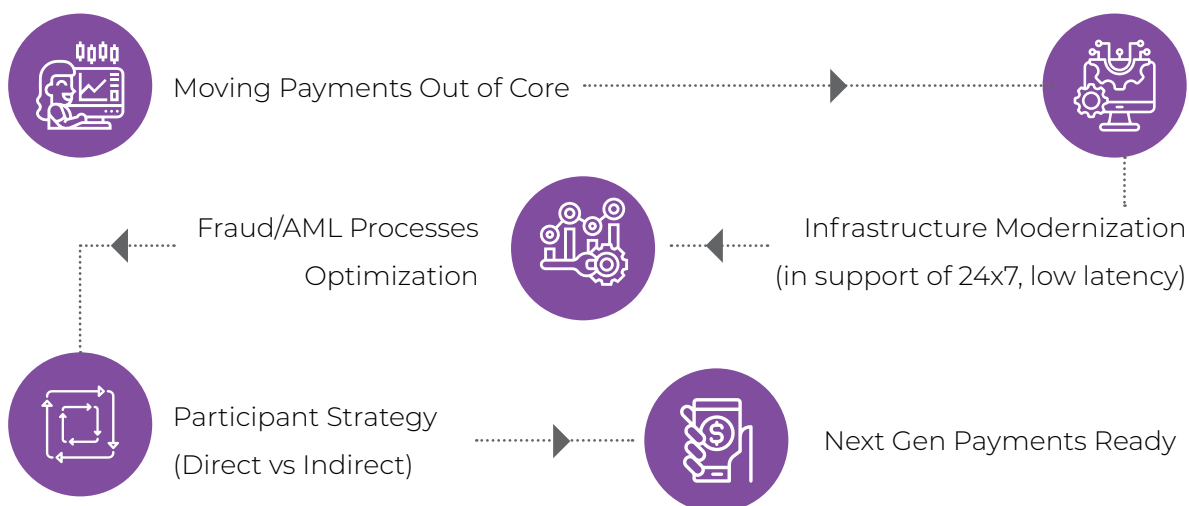


SCT Inst FIToFIPaymentStatusReport V10 – pacs.002.001.**10**
(from **March 17, 2024** this version will replace **V3!**)



6. How Aspire can support in implementation of SCT Inst payments

- As trusted global partners of two of the leading Payment Hub providers – Temenos & Finastra, we offer best-in-class implementation of TPH (Temenos) & P2G/GPP (Finastra).
- Aspire is an industry leader in pushing the envelop on payments and our recent Whitepaper on Decoupling Payments from CORE has received a overwhelming response from the industry. Decoupling payments from CORE can help financial institutions to stay nimble in the ever-changing payments regulation landscape and Aspire systems can help with its deep expertise in you staying ahead of the game.
- Strategic Program Planning and Business Case Development
- Infrastructure and Architecture re-evaluation and resiliency study
- Gap Analysis, Program/project management and organizational transformation
- IT Strategy, ISO20022 Migration Support, Regulatory Compliance





7. Conclusion:

SCT Inst is in the process of transforming the European payment landscape instantly. SCT Inst can unlock the network effects of instant euro credit transfers, leading to economic efficiency and more benefits to the PSPs and customers. The transition is potentially disruptive for the PSPs who are unprepared to embrace these changes. Banks have addressed their concerns on the barriers such as legacy infrastructure, poor IT resources and huge investments in building new payment rail. Despite these challenges Banks/ PSPs foresee huge opportunities and benefits ahead to redefine the future of banking and payments. OCT (One Leg Out Instant Credit Transfer) Inst payment scheme is one of such milestones signifying a commitment to continuous improvement and innovation in European payments.

EPC launched a new payment initiative in Nov 2023, (OCT Inst) One Leg Out Instant credit transfer designed to facilitate international instant credit transfers for both incoming and outgoing within Eurozone. It connects the payment rails of two separate regions, Europe and another region by leveraging real-time processing capabilities and existing SEPA payment infrastructure. Moreover, Customers get more opportunities for a faster execution of international payment transaction which is available 24/7/365. ^[5]

As SEPA Payments continue to evolve, they will undoubtedly remain a cornerstone of the European payments landscape.

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