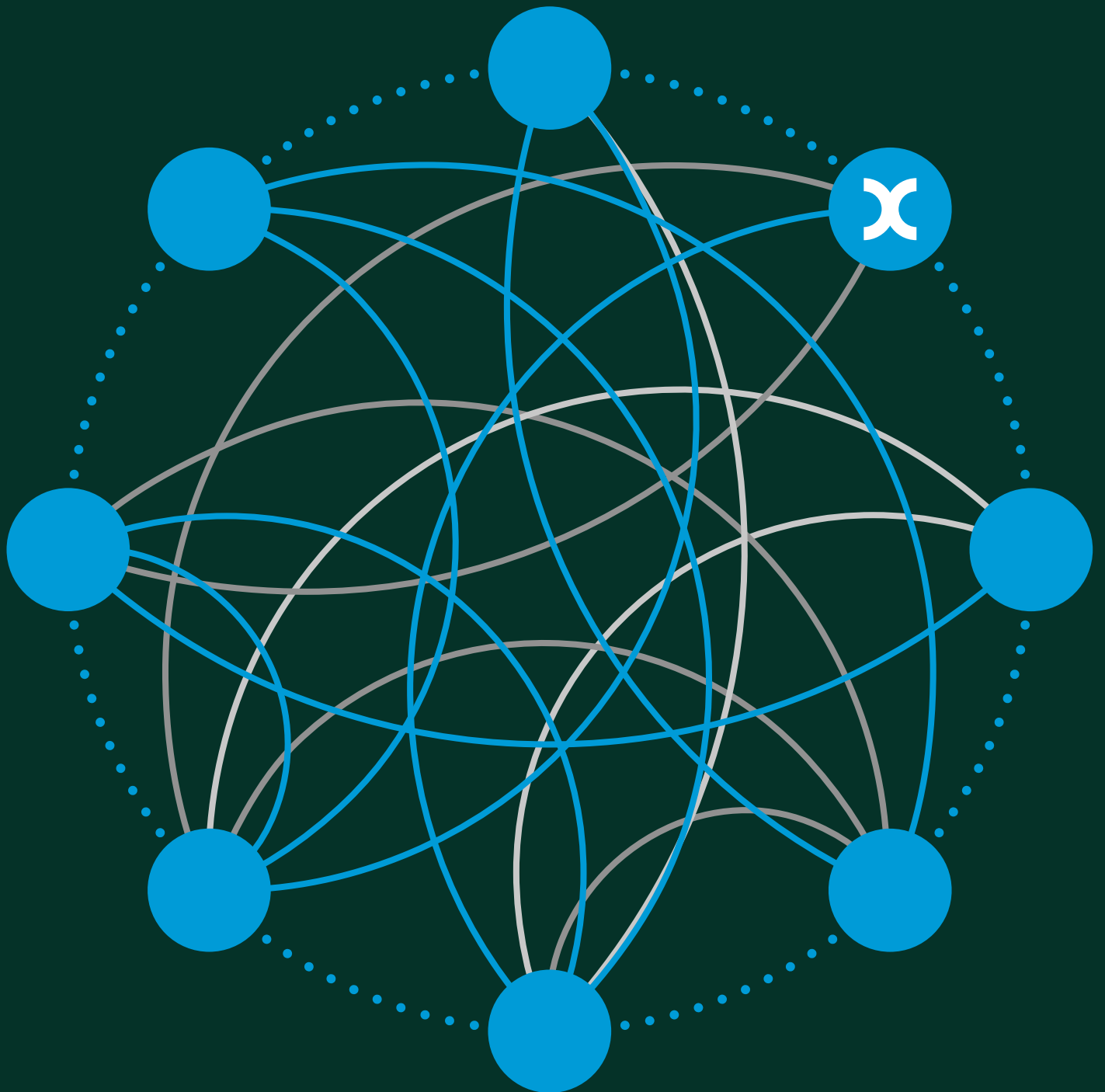


Instant payments: an economic assessment of  
regulatory initiatives proposed by the  
European Commission

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Prepared for Mastercard  
19 January 2023



# Contents

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Executive summary	1
1 Introduction	4
2 Instant payments and overlay services—the economics	6
3 Adoption of SCT Inst	10
4 Consumer protection	14
4.1 Overlay payment services	14
4.2 Payment scams	16
5 Business models and pricing	19
Figure 2.1 A payment method	7
Figure 2.2 Collective and unilateral innovations	8
Figure 3.1 Adoption of instant payments—percentage of banks that allow customers to make and receive instant payments	11
Figure 4.1 Confirmation of payee	17

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## Executive summary

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The European Commission has published a proposal on its regulatory approach towards 'instant payments' ('IPs'),<sup>1</sup> which are bank credit transfers settled in real time.<sup>2</sup> In the EU, the technical standard for IPs is SEPA Instant Credit Transfer ('SCT Inst'). The existing credit transfers that are not in real time are referred to as SEPA Credit Transfers ('SCT').

The Commission's objective is to ensure that anyone holding a payment account in the EU is able to receive and send SCT Insts within and across member states, in order to foster pan-European market initiatives.

The proposal has identified a number of areas for regulatory intervention, in particular:

- mandating Payment Service Providers ('PSPs') to offer the service of both receiving and sending IPs in euros;
- requiring PSPs to introduce a confirmation of payee ('CoP') service to ensure that the account number and name of payee match;
- requiring that any charges that are applied for sending/receiving euro instant credit transfers within the eurozone should be no higher than the same PSP's charges that are applied for a traditional credit transfer;
- additional requirements for sanctions screening.

To inform the policy debate, Oxera was commissioned by Mastercard to provide an economic assessment of these potential regulatory initiatives.

SCT, together with direct debits, are frequently used by households, such as when paying for utility bills, subscriptions and certain financial products, and when making donations to charity. However, these transactions are non-instant, which limits the scope of their application: real-time settlement would increase the range of their use cases, potentially making them more attractive for 'peer-to-peer' ('P2P') payments or payments to smaller merchants.

Acting as an ancillary feature on top of the basic infrastructure, overlay payment services can extend the scope of the use of credit transfers by increasing transaction security and convenience—for example, when purchasing products or services online.

Our economic assessment of the Commission's proposal finds that it addresses the economics of IPs and overlay services. In particular, our analysis results in the following findings:

- The Commission has proposed mandating the adoption of IPs across Europe, requiring all the PSPs that provide traditional credit transfers in euros to offer the services of both sending and receiving IPs in

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<sup>1</sup> European Commission (2022), 'Proposal for a regulation of the European Parliament and of the Council amending Regulations (EU) No 260/2012 and (EU) 2021/1230 as regards instant credit transfers in euro', 26 October.

<sup>2</sup> These exclude other forms of digital payments, such as card and e-money transactions.

euros. Our economic analysis shows the economic rationale behind such a proposal. Although progress has been made, the adoption of IPs by banks is still far from universal. An increase in the adoption of IPs by banks is likely to facilitate the development of overlay services.

- However, we note that there are also other ways of achieving a higher degree of adoption of IPs by banks. For example, one could allow smaller banks more time, given the higher costs for smaller banks than for larger banks. Furthermore, a requirement for banks to be able to receive SCT Inst could be considered. When most banks are able to receive IPs, this could encourage other banks to make SCT Inst available to their own customers such that they can make (rather than just receive) IPs.
- The European Commission's proposal does not include regulation of the level of consumer protection offered by overlay services. Our analysis supports this approach, since regulatory intervention at this early stage would risk distorting the market and potentially crowd out commercial investments into new payment methods with consumer protection features.
- Consumer bodies have called for more consumer protection measures in relation to IPs, similar to the consumer protection offered by some debit and credit cards. Being able to pay conveniently and securely is indeed highly valued by consumers and merchants. However, it is worth noting that the risks that consumers face, and thus the type and degree of protection that they might need, will depend on the type and context of the transaction. There is little that can go wrong when paying for a coffee in a café, whereas there are clearly risks when paying for an electrical appliance or other product online.
- Moreover, banks and non-banks have introduced new retail payment methods by developing overlay services on top of the traditional SCT system; examples include Trustly, iDEAL, PayPal (where transactions can be funded not only by cards but also by using credit transfers), and Klarna Pay Now. Over time, these overlay services may switch to SCT Inst and new payment methods may use SCT Inst rather than SCT using (for example) PSD2 Open Banking provisions. Some of these providers have also developed buyer protection features, which has resulted in choice and different value propositions for consumers and merchants.
- Some consumers may use credit transfers without overlay payment services (for example, for P2P payments and payments to smaller merchants), which could leave them vulnerable to misdirected payments, and to payment scams (for example, where fraudsters trick someone into sending a payment to a bank account controlled by the fraudster). The Commission has now proposed to require banks to offer an IBAN check service to their customers. Under the Commission's proposal, if the account name and number entered by the consumer do not match, the payer is notified, but remains free to proceed with the transaction. In some countries, for example the Netherlands, banks have reduced these risks by introducing services such as CoP. We conclude that if it turns out that the incentive for banks to introduce services such as CoP is still not sufficient then the Commission's proposal of imposing a regulatory requirement to

offer a CoP service could be considered, given the potentially substantial benefits to consumers.

- With regard to pricing regulation, the Commission has not proposed regulating the fees charged by overlay services to consumers: being able to set market-based fees provides the right incentives for new companies to enter, and for existing companies to continue to improve their service offering. The same principles should also apply to IPs. For banks to be able to introduce IPs and make these available to their customers, it is important that their pricing is not distorted by regulatory intervention, and that their efforts are adequately rewarded.
- Finally, consumer education is key. To enable consumers to make decisions about which payment method to use (for different types of purchase), it is important that consumers are informed about the risks of using credit transfers (without an overlay service) and more generally about the benefits of different types of consumer and buyer protection that overlay payment services and other payment methods such as cards may offer. However, we note that the Commission's proposals do not cover anything in relation to disclosure or consumer education.

## 1 Introduction

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The European Commission has published a proposal on its regulatory approach towards instant payments ('IPs').<sup>3</sup> IPs are bank credit transfers settled in real time; in the EU, the technical standard for IPs is SEPA Instant Credit Transfer ('SCT Inst'). The existing credit transfers that are not real-time are referred to as SEPA Credit Transfers ('SCT').

The Commission's objective is to ensure that anyone holding a payment account in the EU is able to receive and send an instant credit transfer within and across member states, in order to foster pan-European market initiatives based on IPs.

The Commission's proposal has identified a number of areas for regulatory intervention, and includes the following provisions.

- **Mandatory acceptance:** Payment Service Providers ('PSPs') will be required to offer the service of both receiving and sending IPs in euros. The requirements will be introduced six and 12 months respectively after the regulation for PSPs comes into force within the eurozone, and 30 and 36 months respectively for non-eurozone PSPs.
- **Pricing:** the Commission requires that any charges that are applied for sending/receiving euro instant credit transfers within the eurozone should be no higher than the same PSP's charges that are applied for a traditional credit transfer. In the case of a cross-border euro IP outside of the eurozone, it should be priced at the same or a lower level than a corresponding regular cross-border euro credit transfer.
- **Confirmation of Payee ('CoP'):** the payer's PSP is required to verify whether the payment account number and the name of the payee match—if they do not match, the payer is notified but remains free to proceed with the transaction.
- **Requirement for sanctions screening:** PSPs are required to verify at least once a day whether any of their customers are persons or entities subject to EU sanctions.

Ahead of the publication of the Commission's proposals, Oxera was commissioned by Mastercard to provide an economic assessment of these potential initiatives, with the aim of informing the policy debate. Our findings and how these apply to the Commission's proposals are summarised in the Executive summary of this report.

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<sup>3</sup> European Commission (2022), 'Proposal for a regulation of the European Parliament and of the Council amending Regulations (EU) No 260/2012 and (EU) 2021/1230 as regards instant credit transfers in euro', 26 October.





### Economic characteristics of payment services

In order to assess potential regulatory initiatives in relation to IPs, it is useful to understand the economic characteristics of IPs (and credit transfers more generally), and the role of market initiatives (also referred to as 'overlay payment services') that can be developed using IPs as the 'rails'.

Payment services are characterised by being two-sided markets.<sup>4</sup> They bring together consumers who are able to make a payment, and retailers and other types of recipient that adopt the means to accept payment. As such, payment services are two-sided markets serving two distinct types of user. Payees want to be able to accept payments with a system that payers are able to use, and vice versa.

Credit transfers, including IPs, are characterised by the requirement for 'universal reach'. Consumers expect to be able to transfer money to anyone with a bank account, and banks are unlikely to be successful if they can send credit transfers to only a subset of all the banks in a country (or the world).

Universal reach is driven partly by consumer expectations. For example, when using a mobile phone network, consumers expect to be able to reach anyone else who has a mobile phone, irrespective of the type of network used.

Universal reach for credit transfers can be achieved by creating a common standard (for example, SCT and SCT Inst within the EU), and through a combination of interoperability across payment processing companies (so that banks using different processing companies can still reach each other) and some banks having access to multiple payment processing companies, which increases banks' reach.

Additionally, the PSD2 Open Banking provisions enable third parties (i.e. banks and non-banks) to initiate credit transfers on behalf of current account holders, and this allows for the development of overlay payment services by third parties. This, as we explain below, increases the potential use case for IPs.

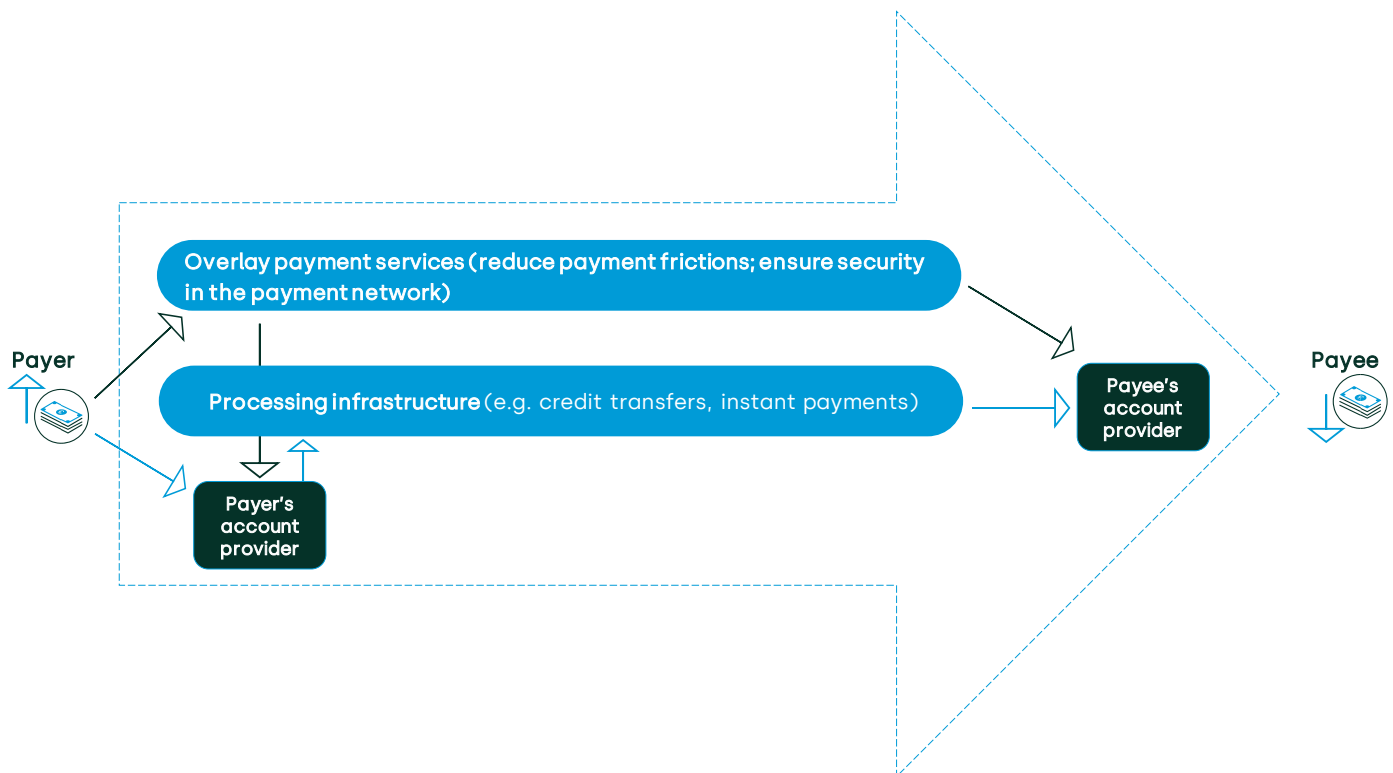
Figure 2.1 illustrates this process.

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<sup>4</sup> For an analysis of two-sided markets and other characteristics of payment services markets, see section 2 in Oxera (2020), 'The competitive landscape for payments: a European perspective', March.



Figure 2.1 A payment method



Source: Oxera.

Importantly, while universal reach is required for credit transfers, it is not required for overlay payment services that run on credit transfers as the 'rails' (i.e. the underlying interbank infrastructure). Payment products such as Trustly, Sofort (now part of Klarna Pay Now) and GoCardless, which use credit transfer infrastructure as the 'rails', can be successful even if only some consumers hold them or some merchants accept them—as consumers and merchants can always switch to other payment methods. Figure 2.2 below shows the two elements of a payment method: the overlay service and the processing infrastructure.

### The use of instant payments and overlay payment services

SEPA Credit Transfers, together with direct debits (which in some countries use the same processing infrastructure), are frequently used by households to make payments. They are typically used for the payment of utility bills, subscriptions, memberships, charity donations and certain financial products.

If credit transfers are settled in real time, this increases the scope of their use case since the recipient will know instantaneously that the payment has been received. For example, a credit transfer between households that settles instantaneously may become more convenient to use and more similar to a cash payment—the recipient can immediately establish that the payment has been received. Similarly, in the case of merchants, knowing that the payment has been received means that the service can be provided or the product can be dispatched immediately.

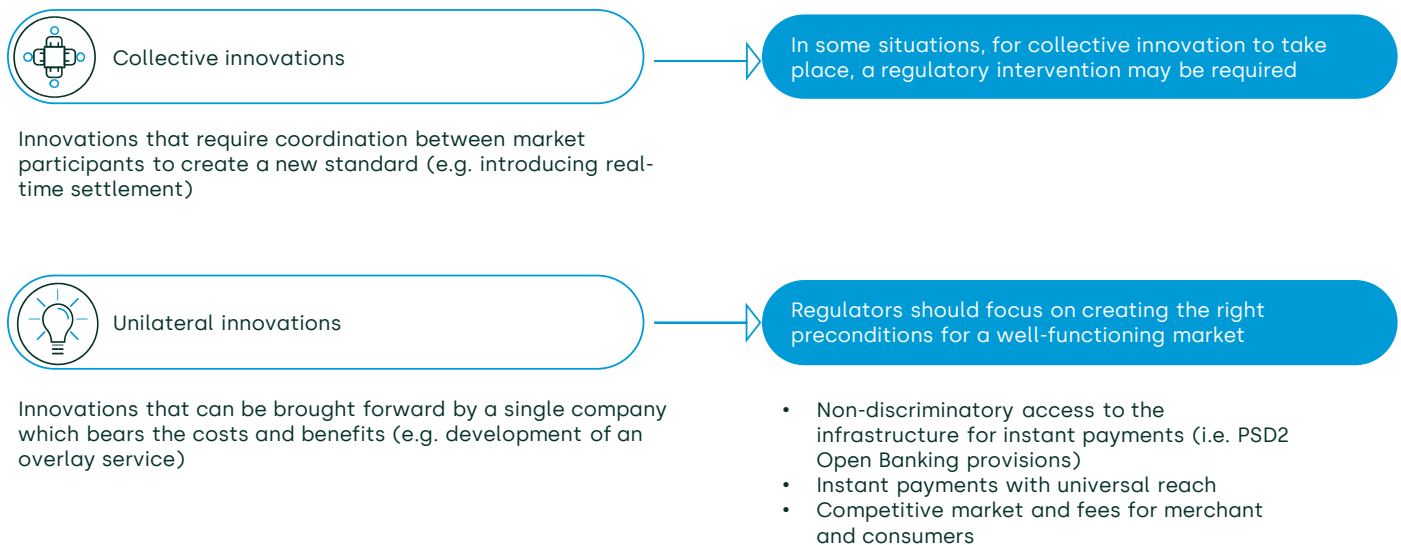
Overlay services can further extend the scope of the use of credit transfers, including IPs, and make it possible to pay by 'credit transfer' in more situations securely and conveniently, for example when purchasing products or services online. An interesting example is Swish, a mobile payment system in Sweden that uses IPs as the underlying processing infrastructure. It was originally intended for transactions between individuals but soon began to be used for payments at flea markets, and by sports clubs and other organisations as payment at small events, replacing cash transactions. The system was then extended to payments to companies, in person and online.

One of the advantages of Swish and similar overlay services is that they automate the transaction process: there is no need to manually initiate a credit transfer, since the system automatically completes the credit transfer form with the account number and name of the merchant and the transaction amount, thereby making the process more convenient and secure for consumers.

### The economics of innovation

The different economic characteristics of credit transfers (including IPs) and overlay payment services have implications for their incentives to innovate, and there is an important distinction between unilateral and collective innovations.

Figure 2.2 Collective and unilateral innovations



Source: Oxera.

Collective innovations are relevant to the system for credit transfers and can involve the adoption of a new approach across the whole industry. Innovations in relation to credit transfers, such as introducing real-time settlement, require coordination across market participants to create a new standard. Furthermore, payment processing companies need to develop the new technology and banks need to ensure that they have the relevant back-office infrastructure and interface to access the processing companies.

Unilateral innovations are relevant to overlay services and can be brought forward by a single company, which then bears the cost of the innovation and receives the benefits. Companies developing overlay payment services would consider implementing an innovation if the expected benefits were to exceed the upfront cost on a net present value basis—i.e. if the innovation were to pass the private cost–benefit analysis ('CBA') case.

Payment products such as Trustly and PayPal are examples of unilateral innovation. Although some of the overlay services have been developed by joint ventures of banks (such as Swish in Sweden, iDEAL in the Netherlands and Bizum in Spain), the fact that there are various non-bank providers of overlay services shows that bank ownership is not a requirement and that overlay services can also be developed by companies unilaterally. The PSD2 Open Banking provisions have made this even easier by enabling non-banks to use the banks' and processing companies' infrastructure for credit transfers for payments.

Initiating system-wide innovation does require coordination between banks (and other players such as payment processing companies), and can therefore be more challenging. The industry would consider proceeding with the innovation only if it passed the private CBA case for each individual bank, even if the innovation were to be beneficial from an industry or society perspective. There are reasons why a collective innovation that is desirable from an industry or society perspective might not pass the private CBA case for each bank and would not be taken forward. For example, it could be that the costs of upgrading back-office systems for some of the banks (in particular, those with legacy systems) are high relative to its private benefits.

This means that, in some situations, for collective innovation to take place, a regulatory intervention may be required, whereas unilateral innovation requires policy and regulation to focus on creating the right preconditions for a well-functioning market. In the case of overlay payment services, these include non-discriminatory access to the infrastructure for IPs (which has been achieved through PSD2 Open Banking provisions) and IPs with *universal reach* (which, as we explain below, has not yet been achieved). It also requires a competitive market for IPs by the banks—an overlay service will require a credit transfer, and therefore, for the overlay service to be attractive, the fees for credit transfers charged to consumers and merchants need to be competitive.

### 3 Adoption of SCT Inst

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As shown in Figure 3.1 below, All PSPs in the EU offer SCT to make and receive payments. SEPA has replaced the different national standards for credit transfers and has contributed to the creation of a single European market for payment services, making it easy to make credit transfers across borders within the EU.

The SCT Inst standard was finalised in 2017 and around 70% of banks and PSPs in the eurozone have adopted it, but there is significant variation across countries.<sup>5</sup> For example, while in Austria, Finland, Germany, Italy, Slovenia and Spain more than 60% of banks and other PSPs have adopted SCT Inst, this percentage is much lower in some smaller EU member states (e.g. 9% in Luxembourg and 4% in Ireland).<sup>6</sup>

When measured in terms of the number of accounts (rather than the number of banks), SCT Inst penetration is much higher, as larger banks have been quicker to make SCT Inst available to their customers. For example, in the Netherlands, the five largest banks, accounting for more than 80% of the market, already offer their customers SCT Inst for both making and receiving payments.<sup>7</sup>

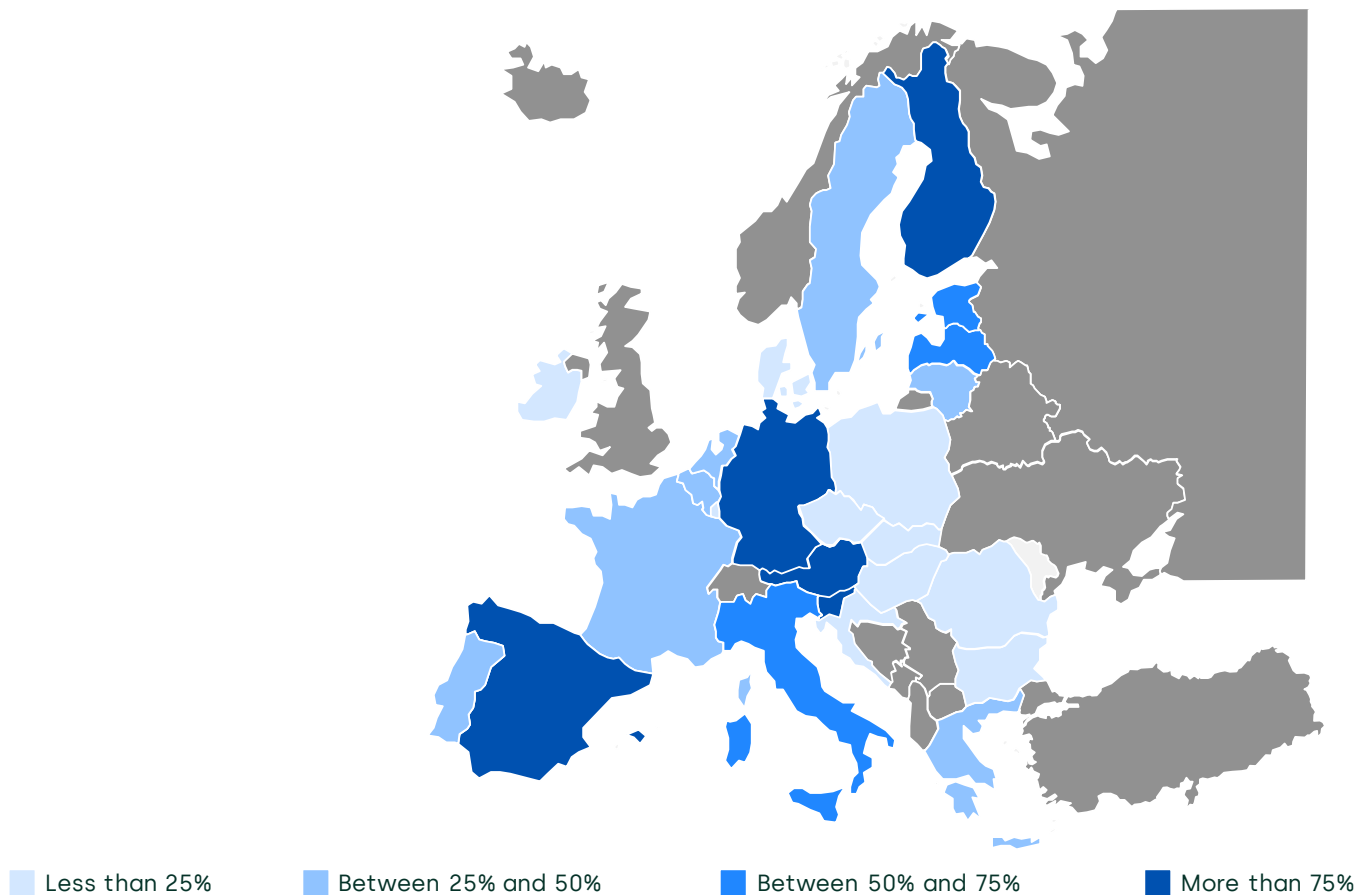
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<sup>5</sup> 68% of PSPs in the EU and 71% of PSPs in the eurozone have now adopted SCT Inst, which means that their customers can receive IPs; many PSPs also allow their customers to send IPs. Source: European Payments Council (2022), 'Status Update on SCT Inst Scheme July 2022 ERPB Meeting', 13 June, [https://www.ecb.europa.eu/paym/groups/erpb/shared/pdf/17th-ERPB-meeting/SCT\\_Inst\\_scheme\\_update.pdf](https://www.ecb.europa.eu/paym/groups/erpb/shared/pdf/17th-ERPB-meeting/SCT_Inst_scheme_update.pdf) (last accessed 3 August 2022).

<sup>6</sup> Ibid.

<sup>7</sup> European Payments Council (2022), 'Register of participants in SEPA Payments Schemes', 10 June, <https://www.europeanpaymentscouncil.eu/what-we-do/be-involved/register-participants/registers-participants-sepa-payment-schemes> (last accessed 3 August 2022).

Figure 3.1 Adoption of instant payments—percentage of banks that allow customers to make and receive instant payments



Source: Oxera, based on European Payments Council (2022), 'Status Update on SCT Inst Scheme. July 2022 ERBP Meeting', 13 June, [https://www.ecb.europa.eu/paym/groups/erpb/shared/pdf/17th-ERBP-meeting/SCT\\_Inst\\_scheme\\_update.pdf](https://www.ecb.europa.eu/paym/groups/erpb/shared/pdf/17th-ERBP-meeting/SCT_Inst_scheme_update.pdf) (last accessed 19 January 2023).

We note that most banks continue to offer SCT as the default option and allow customers to choose SCT Inst, sometimes at a higher fee. In the second quarter of 2022, IPs (SCT Inst) constituted around 12% of all SEPA transfers.<sup>8</sup>

In sum, although progress has been made, the acceptance of IPs is still far from universal. In particular, some of the smaller banks have been much slower to adopt IPs.

From an economics perspective, we can make the following observations.

- Not all banks may have sufficient financial incentives to introduce IPs. In particular, smaller banks may find the costs to be substantial, exceeding the benefits to the individual banks. In economics terms, although society overall may benefit from the transition towards IPs, the CBA for individual banks may be different.
- Even when a large number of banks have adopted IPs, not having *universal* reach can have a negative impact on the success of overlay services. Introducing a payment method that runs on a

<sup>8</sup> European Payments Council website (2022), <https://www.europeanpaymentscouncil.eu/what-we-do/sepa-instant-credit-transfer> (last accessed on 4 August 2022).

system that cannot be used by everyone is unlikely to be attractive, and running a payment method on a combination of SCT and SCT Inst may be more costly and technically complicated.

- We also note that it is unlikely that the choice of the bank (for consumers and merchants) will be strongly affected by whether a bank offers IPs—in other words, some banks may not feel sufficient competitive pressure to make IPs available.

The Commission has proposed mandating the adoption of IPs across Europe, requiring all the PSPs that provide traditional credit transfers in euros to offer the services of both sending and receiving IPs in euros.

Our economic analysis shows the economic rationale behind such a proposal. There are likely to be positive externalities from the adoption of IPs by banks: the value to society of IPs may be greater than that captured by each individual bank privately. In particular, a slower adoption of IPs may hinder the development of overlay services by third parties.

However, we note that there are also other ways of achieving a higher degree of adoption of IPs by banks. For example, one could allow smaller banks more time given the higher costs for smaller banks than for larger banks. Furthermore, one could consider requiring banks to be able to receive SCT Inst. When most banks are able to receive IPs, this could then also encourage other banks to make SCT Inst available to their own customers, such that they can make (rather than just receive) IPs.





In response to the Commission's consultation on IPs,<sup>9</sup> consumer bodies have called for the Commission to regulate the requirements for more consumer protection measures in relation to IPs, similar to the consumer protection offered by some debit and credit cards.<sup>10</sup> How can we assess this from an economics perspective?

It is worth clarifying that there are different types of risk associated with payment for a product or service—some of which relate to the payment itself while others relate to the delivery or the condition of the product or service. For example, there are risks in relation to the money transfer itself due to human error (e.g. entering the incorrect account number), scams (e.g. fraudsters tricking someone into sending a payment to a bank account controlled by the fraudster) and other fraudulent activities; there is a risk of not receiving the product or service when purchasing something online; and there are risks in relation to the product itself: receiving a faulty or damaged product, or the service not being in line with how it was described when purchased. In some sectors such as the travel and leisure industry, there may also be the risk of losing money if the company goes bankrupt and the service has not yet been provided.

The risks that consumers face, and thus the type and degree of protection that they might need, will depend on the type and context of the transaction. There is little that can go wrong when paying for a coffee in a café, whereas there are clearly risks when paying for an electrical appliance or other product online.

### 4.1 Overlay payment services

Overlay payment services such as Blik in Poland and Bancomat Pay in Italy, and other payment methods that run on the 'rails' of credit transfers, have addressed some of the risks with online payments and also make the process more convenient for consumers (and merchants). These overlay payment services verify the identity of the recipient and automate the transaction process by pre-filling in the credit transfer form with the account name and number and transaction amount, so that the right amount goes to the retailer that the consumer is dealing with rather than someone else. Such transactions do not involve sharing sensitive account details and apply Strong Customer Authentication ('SCA'), which also reduces the risk of fraud.

There may still be a risk of consumer harm if, for example, fraudsters pose as a genuine retailer and use overlay payment services to receive payments. However, allowing such 'scam retailers' to continue to use the payment product to deceive consumers would affect the reputation of the payment method and its provider. It is therefore in

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<sup>9</sup> European Commission (2021), 'Targeted consultation on instant payments', 31 March. The responses are available at [https://commission.europa.eu/documents\\_en?f%5B0%5D=document\\_title%3Ainstant%20payments](https://commission.europa.eu/documents_en?f%5B0%5D=document_title%3Ainstant%20payments) (last accessed 19 January 2023).

<sup>10</sup> See, for example, BEUC (2021), 'Consumers and Instant Payments - Answers to the Commission's consultation on the content of a new legislation (07.04.2021)', pp. 4–7.

the interest of the overlay service provider to identify and delist 'scam retailers'.

There are also payment methods based on credit transfers that offer protection not just in relation to the money transfer but also in relation to the delivery of the product and the product itself. For example, Klarna Pay Now, which uses credit transfers in combination with PSD2 Open Banking provisions to complete the transaction, offers a dispute resolution mechanism and buyer protection policy covering both goods or services not delivered and defective goods or services.<sup>11</sup> Klarna Pay Now was previously Sofort, which did not offer this type of consumer protection.

Another example is PayPal, which provides seller verification and protection against goods or services not delivered and/or being defective, together with a dispute resolution mechanism. In some member states such as Germany a large proportion of PayPal transactions are funded using credit transfers and direct debit. For transactions funded with credit transfers, the buyer protection is provided by PayPal, whereas for transactions funded by cards, it is provided by the payment card company operator.

Finally, there are various marketplaces or platforms that offer buyer protection. For example, marketplaces such as Amazon Marketplace and Etsy offer protection against goods that are not received, or that are damaged or not in line with how they were described. In the travel sector, platforms such as Airbnb offer buyer protection.

In sum, PSPs and online market platforms have developed consumer protection policies, which has resulted in choice and different value propositions for consumers and merchants. Most of these overlay services were developed before SCT Inst was introduced, and therefore run on the traditional SCT system. Over time, these services may switch to SCT Inst and new overlay payment services may use SCT Inst rather than SCT.

These examples show that market participants are well placed to develop consumer protection and that regulatory intervention does not seem to be required. Introducing regulation at this early stage would risk distorting the market and potentially crowd out commercial investments into new payment methods with consumer protection features.

Requiring banks to develop consumer protection features and incorporate these into IPs could reduce overlay service providers' incentives to develop their own consumer protection features. Overlay service providers (which can be non-banks and banks) are likely to be better placed to develop such features, respond quickly, and innovate unilaterally than all banks together; coordination between all banks to incorporate consumer protection into IPs requires time. Furthermore,

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<sup>11</sup> Klarna website (2022), for example in Germany: <https://www.klarna.com/de/kundenservice/wie-funktioniert-sofort-bezahlen-mit-klarna/> and <https://www.klarna.com/de/kauferschutzrichtlinie/>, in Italy: <https://www.klarna.com/it/servizio-clienti/che-cose-paga-ora/>, in Spain: <https://www.klarna.com/es/atencion-al-cliente/que-es-paga-ahora/>, in Belgium: <https://www.klarna.com/fr-be/smooth/>.

consumer protection comes at a cost and not all payments need the same degree of consumer protection. Higher costs of credit transfers (which would be passed on in some way to merchants) could also (negatively) affect the value proposition of overlay payment services that run on credit transfers.

## 4.2 Payment scams

Credit transfers are not only used as the 'rails' for overlay payment services, but also by households directly (i.e. without an overlay service)—for example, to pay utility bills, subscription services and memberships, and for certain financial services. Over time, some or many of these payments may be conducted using IPs. The roll-out of SCT Inst may further increase the use of IPs, for example for P2P payments and payments to smaller merchants.

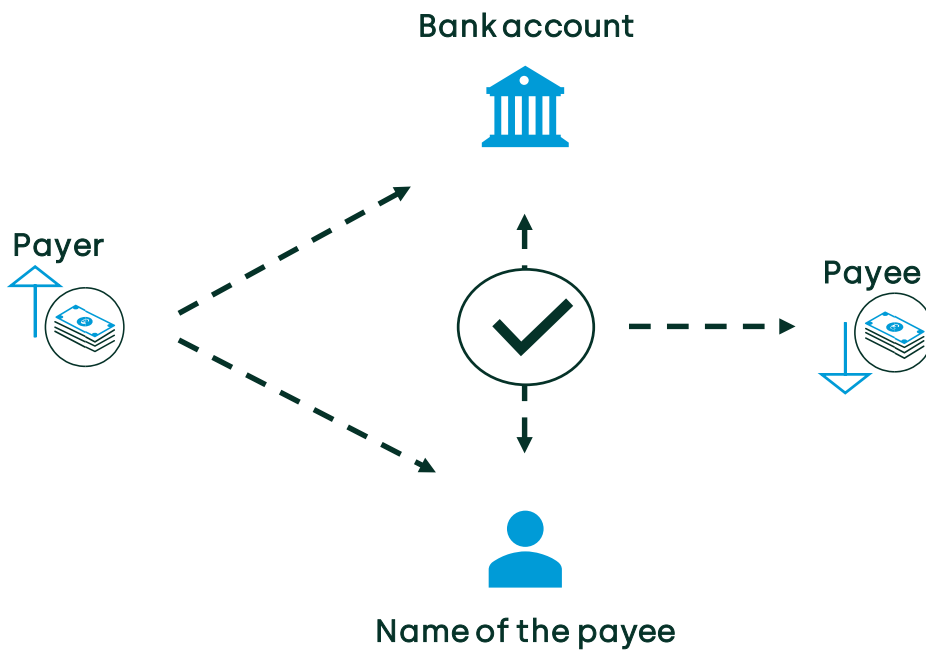
Although the risks in relation to some of these payments are likely to be limited (such as in the case of P2P transactions and in-person payments to merchants where the product or service is received immediately), using credit transfers without overlay payment services may leave consumers vulnerable to misdirected payments and payment scams (for example, where fraudsters trick someone into sending a payment to a bank account controlled by the fraudster).

An example of how some of these risks can be addressed is the introduction of a CoP service in the Netherlands and some other countries. To prevent consumers from making a payment to the wrong bank account (by entering the incorrect account number or as a result of fraudulent activity or a scam), CoP checks whether the account name and number entered by the consumer match; i.e. it verifies that the name on the recipient account is the same person or business that the consumer intends to send the money to, so that funds end up in the right place.

The Commission has now proposed to require banks to offer such a service to their customers. Under the Commission's proposal, if the account name and number entered by the consumer do not match, the payer is notified, but remains free to proceed with the transaction.

Figure 4.1 illustrates the mechanism.

Figure 4.1 Confirmation of payee



Source: Oxera.

The introduction of a CoP service in the Netherlands and some other countries has been successful in preventing consumers from making a payment to the wrong bank account (either as a result of human error or fraudulent activity). It has resulted in an 81% fraud reduction in payments to Dutch bank accounts and a 67% drop in misdirected payments.<sup>12</sup> Other countries in Europe are also looking to introduce CoP.<sup>13</sup> Although there are versions of CoP services that are equivalent to 'collective innovation' and would require coordination between the banks (to share information about bank accounts and names), there are also CoP solutions that can be introduced by banks unilaterally. This means that there may not be a need for coordination and regulatory intervention. We also understand that the costs of operating a CoP service can be small, in particular compared with the benefits. However, if it turns out that the incentive for banks to introduce services such as CoP is still not sufficient then imposing a regulatory requirement to offer a CoP service could be considered given the potentially substantial benefits to consumers.

Finally, to enable consumers to make decisions about which payment method to use (for different types of purchase), it is important that consumers are informed about the risks of using credit transfers (without an overlay service) and more generally about the benefits of

<sup>12</sup> European Payments Council website (2022), <https://www.europeanpaymentscouncil.eu/news-insights/insight/using-cop-mitigate-fraud-and-mistakes-online-payments> (last accessed 4 August 2022).

<sup>13</sup> For example, The Nordic Payments Council has launched a public consultation on the Confirmation of Payee Scheme Rulebook, with the final version of the NPC Confirmation of Payee Scheme planned to be published in November 2022 and enter into effect on the same date. See Nordic Payment Council (2022), 'Public Consultation on the NPC Confirmation of Payee Scheme Rulebook is now open', April, <https://www.nordicpaymentscouncil.org/news/public-consultation-on-the-npc-confirmation-of-payee-scheme-rulebook-is-now-open/> (last accessed 3 August 2022).

different types of consumer protection that overlay payment services and other payment methods such as cards may offer. We note that the Commission's proposals do not cover anything in relation to disclosure or consumer education.



As explained, various banks and non-banks have introduced new retail payment methods by developing overlay services on top of the traditional SCT system. Over time, these overlay services may switch to SCT Inst and new overlay payment services may use SCT Inst rather than SCT.

Some overlay payment services are currently mainly national in their offering, in particular those set up by banks (such as iDEAL, Paydirekt, Blik, Bancomat Pay or Swish), partly due to these banks having a predominantly domestic customer base. However, non-bank providers such as PayPal, Trustly, Klarna and GoCardless have clearly demonstrated that it is possible to successfully enter and focus on a European or international market.

PSD2 Open Banking provisions have further lowered barriers to entry for payment methods based on the interbank infrastructure by reducing the need for active bank participation in a payments service. By getting direct access to a customer's account, third-party providers are able to build services on top of a bank's existing infrastructure and can thus offer payment services across different EU countries.

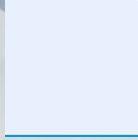
Going forward, it is important that overlay service providers are free to choose the business model that suits them best, and that prices and fees are not distorted by regulatory intervention. Being able to set market-based fees provides the right incentives for new companies to enter and existing companies to continue to further improve their service offering.

The same principles apply to IPs. For banks to be able to introduce IPs and make these available to their customers, it is important that their pricing is not distorted by regulatory intervention and provides the rewards for their efforts. Similarly, for banks to consider introducing services such as CoP, they need to have the commercial freedom to set prices based on market conditions.

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