



EUROPEAN CENTRAL BANK

EUROSYSTEM

Pan-European reachability of instant payments in TIPS

target | TIPS
services

24/09/2020

IN FOCUS

Karen Birkel
European Central Bank

Agenda

1 Why do we need concrete actions?

2 What are the measures?

3 What the stakeholders need to do?

Why do we need concrete actions?



Strategic objective to have EU-based instant payment solutions for the European market



Difficult for payment service providers (PSPs) to achieve full pan-European reach

We conducted a survey in January 2020...



AMI-Pay members were asked “how to achieve pan-European reachability for instant payments”.

The results were presented in the first ad-hoc AMI-Pay workshop on **4 February 2020**.

(1/3) The market said...

Most respondents requested to **facilitate interoperability** connecting it to the possibility to pay and be paid from a **single liquidity pool**.

The Eurosystem should support the market in the implementation of an interoperability framework for instant payments, based on two pillars: i) it shall be enough for a PSP to participate in **one CSM** only in order to be reachable at pan-European level; ii) setup an efficient settlement mechanism, allowing for the **cross-CSM settlement** processing.



Today **90% reachability** is achieved between **RT1** and **TIPS**.



We need to be able to connect to the **provider of our choice** with **1 connection** and **1 pool of liquidity** in order to reach the rest of Europe.



(2/3) The market said...

Some specify further to **open accounts for ACHs / CSMs** in TIPS and position TIPS as a **central liquidity** hub.

It would be welcomed if TIPS could **revise its participation model** to facilitate both technical and business **interoperability** with other CSMs allowing PSPs participation in **one CSM only**.

TIPS should be positioned as a **super CSM of CSMs**. Adherence to TIPS should be **mandatory** for every PSP offering IP for reachability purposes, with no exclusivity.

Allowing CSMs to **maintain TIPS accounts in their own (CSM) name** would help to resolve the reachability problem.



(3/3) The market said...

Further **general comments** address the following topics

- Choice of PSPs to use one or more CSMs and central bank money or not
- Liquidity cost → need for efficient liquidity management
- Need to ensure efficiency of payments processing

- Need for settlement certainty
- Responsibility of PSPs to be addressable in a pan-European system



Agenda

1 Why do we need concrete actions?

2 What are the measures?

3 What the stakeholders need to do?

The decision

MIP NEWS

ECB takes steps to ensure pan-European reach of instant payments

24 July 2020

The ECB's Governing Council has taken significant steps to support the full deployment of instant payments across the euro area, in line with objectives shared with the European Commission.

Pan-European instant payments can be ensured by the end of 2021. All Payment Service Providers (PSPs) which have adhered to the SCT Inst scheme and are reachable in TARGET2 should also become reachable in a TIPS central bank money liquidity account, either as a participant or as reachable party (i.e. through the account of another PSP which is a participant). At the same time, all Automated Clearing Houses (ACHs) offering instant payment services should migrate their technical accounts from TARGET2 to TIPS. The Eurosystem will discuss with ACHs and PSPs whether a migration window is needed for this purpose.

This will enable the following.

- > *The possibility of instant payments across the currency area.*
- > *PSPs to comply with the SEPA regulation:* PSPs which have adhered to SCT Inst will now be able to comply with their legal obligations, without depending on the actions of other PSPs or ACHs.
- > *Make reachability a commodity, reflecting the fact that it is a legal requirement:* Not only would TIPS benefit from 100% pan-European reachability, but all ACHs competing in the provision of instant payment services would automatically make this part of their service offer. ACHs would no longer depend on bilateral agreements to establish links, and there would be no potential credit exposure for cross-ACH transactions.
- > *Remove liquidity traps:* ACH accounts can be funded/defunded from central bank money accounts in TIPS at any time, unlike the current limitations imposed by the opening hours of TARGET2. This also facilitates moving liquidity from one ACH to another without any time limitation, which can be particularly valuable during long weekends.
- > *A competitive marketplace* where each PSP may decide independently (i) where to instruct (in an ACH or in TIPS) and (ii) where to hold its liquidity and settle (in an ACH or in TIPS). The choice that one PSP makes in this respect does not condition the choices of other PSPs.

The ultimate goal is to enable European citizens to make electronic payments in euro from and to any country in real time, both in physical shops and online.

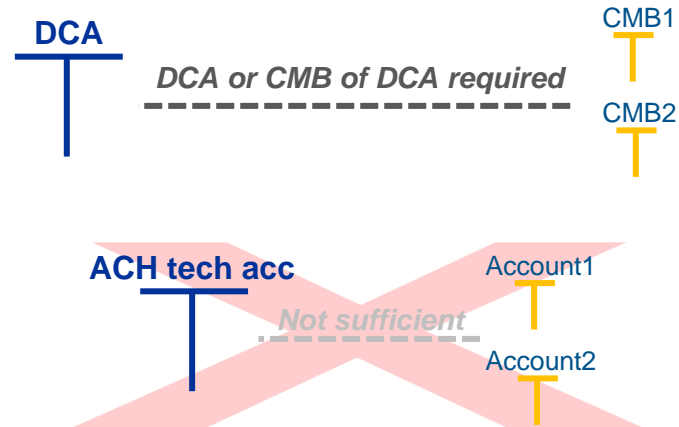


The **ECB Governing Council** decided to take significant steps to support the **full deployment** of instant payments across the euro area, in line with the objectives shared with the European Commission.

(1/2) What are the measures?

All **PSPs** which have adhered to the **SCT Inst scheme** and are reachable in **TARGET2** should also become **reachable in a TIPS central bank money** liquidity account, **either as a participant or** as reachable party (i.e. **through the account of another PSP** which is a participant).

- Reachability in a TIPS Central Bank account is **required**, but this would **not impose** the obligation on banks to use such account for the settlement of their instructed IPs.
- As a consequence, the account in TIPS can be used mostly as a **pure “liquidity” account** if banks wish so.



(1/2) Clarification how to apply this measure

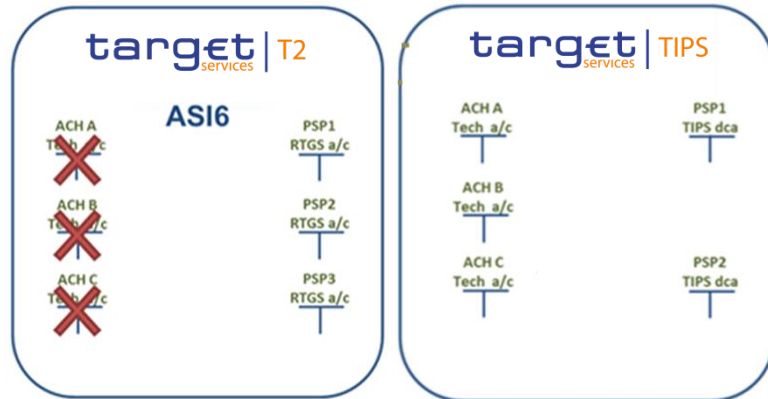
All **PSPs** which have adhered to the **SCT Inst scheme** and are reachable in **TARGET2** should also become **reachable in a TIPS central bank money** liquidity account, **either as a participant or** as reachable party (i.e. **through the account of another PSP** which is a participant).

- This applies to both **direct and indirect** SCT Inst compliant TARGET2 participants.
- Hence, it is **foreseen** that the **TARGET2 Guideline** will indicate:
 - i. that the **PM account holders** which have adhered to the **SCT Inst scheme** are **required** to hold a **TIPS DCA** or to be **reachable** via another TIPS DCA holder;
 - ii. that the **indirect participants** or **addressable BICs** which have adhered to the **SCT Inst scheme** would **only** be **registered** if they hold a **TIPS DCA** or are **reachable** via another TIPS DCA holder.

(2/2) What are the measures?

All **ACHs** offering instant payment services should migrate their **technical accounts** from **TARGET2** to **TIPS**.

- This enables the realization of a **viable interoperability framework** across European CSMs.
 - Each bank will be **reachable**, independent of the entry point for instant payment transaction (any ACH or TIPS).
- Furthermore, the measure guarantees **24/7 access** to **Central Bank money**.



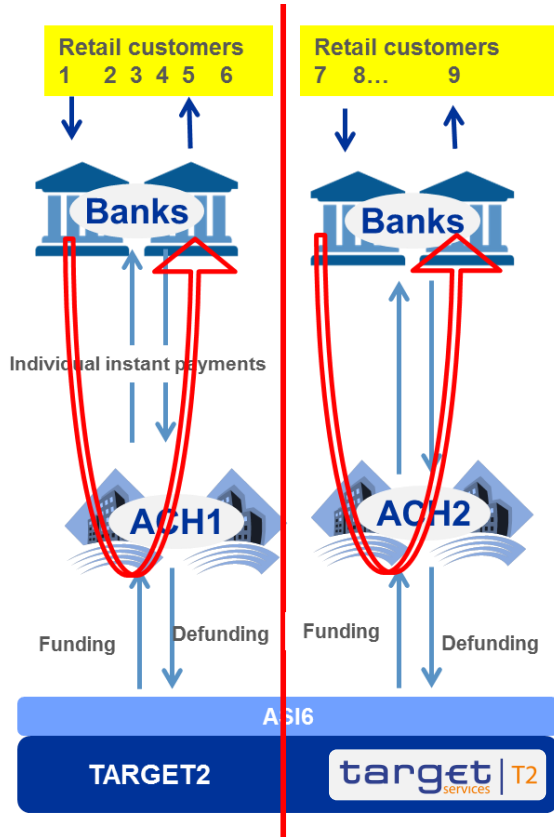
What benefits will these measures bring?

Pan-European reachability package

These measures ensure that all participants are reachable across the chain, irrespective of which ACH (or TIPS) they are using for instant payments.

- All CSMs/PSPs are **pan-European**: Interoperability, **SEPA / SCT Inst compliance**.
- No need for fragmentation of banks' **liquidity pool** and removal of liquidity traps.
- Elimination of **credit risk** exposure and **instant finality** for inter-ACH transfers.
- Optimised liquidity management with **24/7** availability for funding and defunding.
- PSPs can decide to send payments either **ACH internally**, from an **AS technical account**, or using their **TIPS account/CMB**.

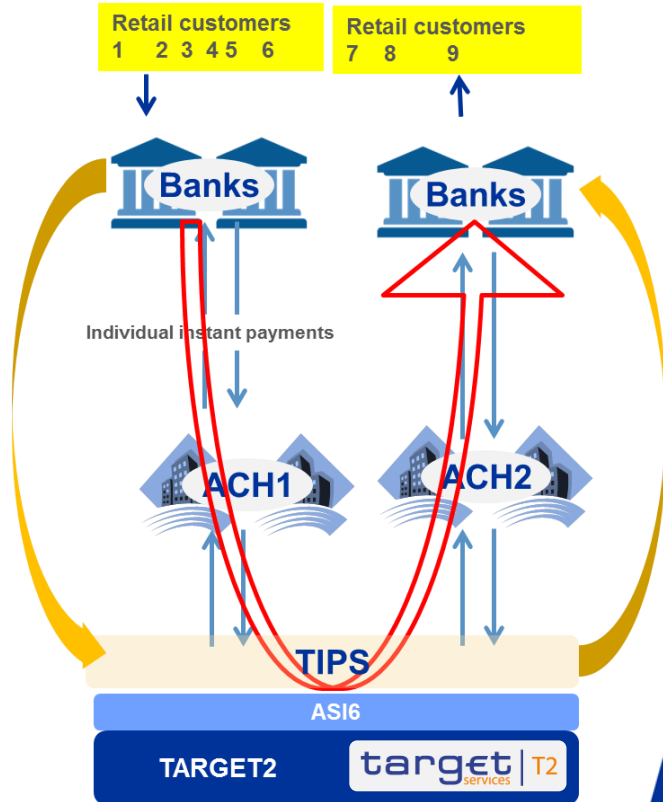
Today instant payments cannot cross the line



Instant payments from one bank account holder to another can only settle, if the accounts are both with banks connected to the same ACH.

⚠ But they do **not** work across different ACHs.

In the future, account location will not matter



Instant payments from one bank account holder to another can also settle **across ACHs**, because the ACHs settle directly cross-ACH payments via TIPS.

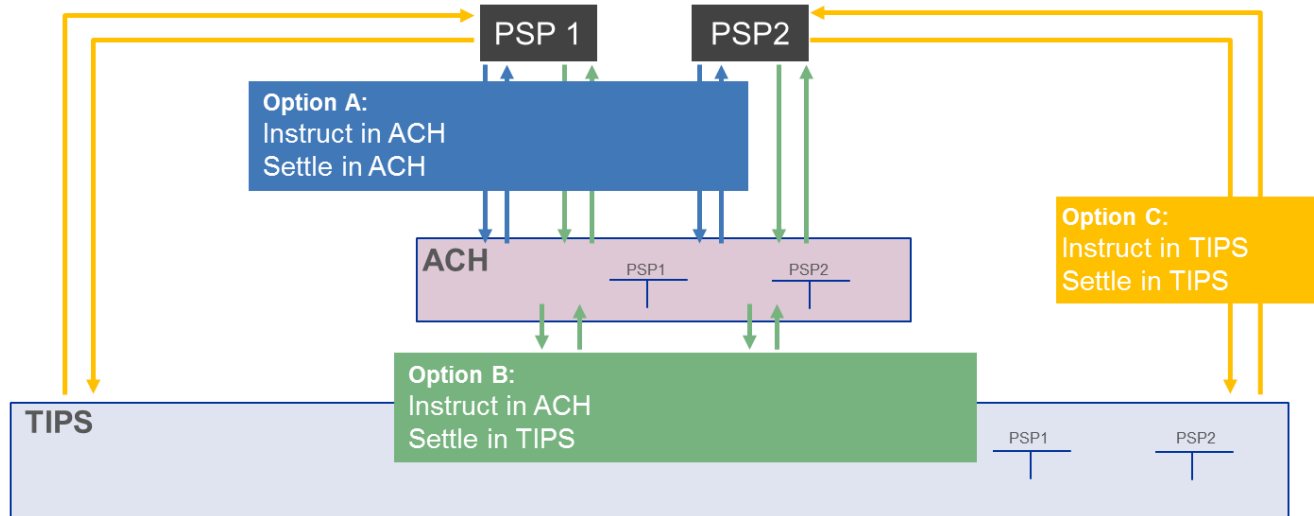


Across the entire euro area, accounts can be either in **any ACH or in TIPS** and they will be able to reach each other.

The options for PSPs in future

The Options for PSPs:

- A** Instructing in an **ACH** and settling in an **ACH**
- B** Instructing in an **ACH** and settling in its **TIPS DCA**
- C** Instructing in **TIPS** and settling in its **TIPS DCA**



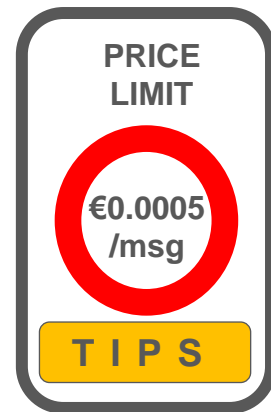
Novel business cases

The pan-European reachability enables several **new business cases**

- Intra-service liquidity transfer from a **TIPS DCA** to an **AS Technical account** and **vice versa**.
- Processing of **instant payments** between two participants of two **different ACHs**.
- Processing of **instant payment** between a participant of an **ACH** and a **TIPS participant**.
- Processing of **recall answer** between two participants of two **different ACHs**.
- Processing of **recall answer** between a participant of an **ACH** and a **TIPS participant**.

TIPS connectivity costs remain stable

- A new **connectivity set-up** to TIPS via **ESMIG** will be established with business criteria applicable between **2021** and 2031.
- In that period, a cap of **€0.0005 per message** will be set. This implies a maximum price of €0.0025 per instant payment (i.e. 5 messages).
- SIA-COLT and SWIFT published **maximum prices** for all types of fees.
- **None** of these maximum prices is **dependent on the number of TARGET services** a participant subscribes to.



Thus, participants of T2 (i.e. CLM and RTGS), T2S or ECMS willing to join TIPS will NOT incur any additional one-off and fixed recurring costs if they opt for the full configuration, i.e. all components of the A2/B2 pack*.

* The "A2/B2 pack" refers to the maximum prices published by SIA-COLT and SWIFT. This publication contains the items A2 (Maximum price for a minimum set of software and hardware components) and B2 (Maximum yearly fee for utilisation and maintenance of a minimum set of software and hardware components).

Agenda

- 1 Why do we need concrete actions?
- 2 What are the measures?
- 3 What the stakeholders need to do?**

(1/2) On-boarding milestones, planning and documentation

On-boarding milestones are **common** to all participants and aim to ensure their **go-live readiness** in a **synchronised** manner across all national communities.

- The **NCBs** will lead the on-boarding process in each country. The responsible NCB will collect **feedback** from their participants once the key milestone has passed.
- On-boarding milestones are to be considered by participants in their internal adaptation plans and will be **monitored** by the Eurosystem.
- The milestones will be **defined** by the Eurosystem in consultation with the market.

(2/2) On-boarding milestones, planning and documentation

- ACHs and TIPS participants can begin testing in TIPS **immediately** and do not need to wait for the changes in Release 4.0 to be deployed.
- The Eurosystem will **update** all of the current documentation to reflect the changes in TIPS due to the measure presented second.
- **ACHs** which are already acting as **Instructing Parties** in TIPS will have **less activities** to complete.

Overview of draft on-boarding milestones (TPs, RPs & ACHs)



Q1

PSE – 31 Jan 2021

Project is set up
Form of TIPS Participation decided

NSP 1 – 1 Feb 2021

NSP Selection begins

IAD1 – 1 April 2021

Drafting of Internal Documentation begins

NSP2 – 31 Mar 2021

Completion of NSP Procurement

Q2

IAD2 – 30 May 2021

Internal documentation drafted

IAD3 – 1 June 2021

Internal development started

NCO – 1 July 2021

Network Connectivity begins

Q3

TRA – 30 Jul 2021

Training is completed

IAD3 – 31 Aug 2021

Internal development completed
Internal Testing completed

UTA – 1 Sept 2021

User Testing Begins

Q4

CLD – 31 Oct 2021

Contractual and legal documentation completed

OBP – 15 Nov 2021

Onboarding activities on production environment are ready to start

GLI – 15 Dec 2021

Go-live (first business day)

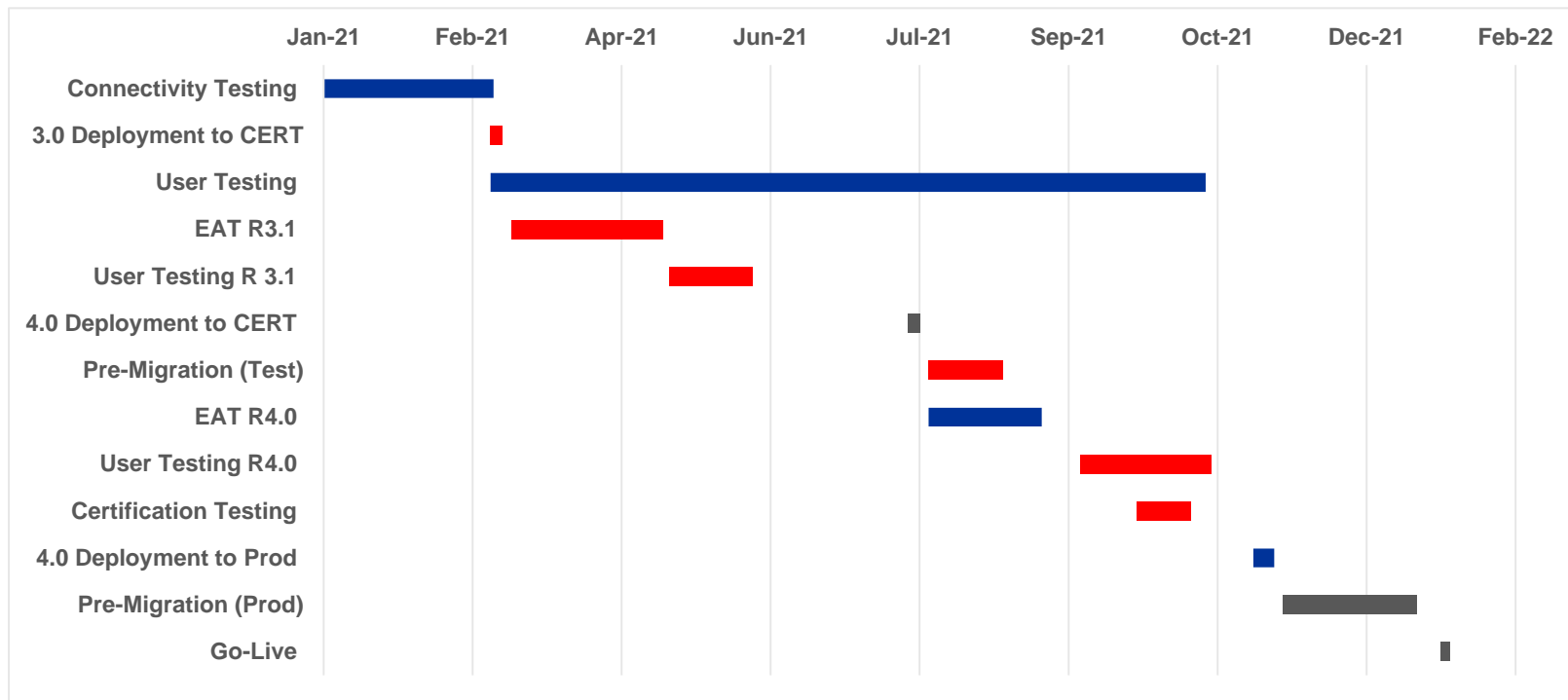
Requirements for PSPs/ACHs to get ready

All participants can use the **agreed milestones** to assist the performance of their **gap analysis**.

This will **reveal**:

- Type of **participation** (PSE)
- Changes needed (if any) at **NSP level** (NSP1)
- **Internal development** needed (IAD 1 and IAD 2)
- **Training** required (TRA)
- **Testing** required
- Contractual and **Legal** requirements (CLD)
- **Connectivity** requirements (NCO)

Proposed on-boarding timeline 2021-22



Thank you for the attention!



TIPS@ecb.europa.eu

www.ecb.europa.eu/paym



@TARGET_ECB



ECB: market infrastructure and payments