

# European Payment Infrastructures Under Renovation

## IMPACT ON FINANCIAL INSTITUTIONS

Bottomline commissioned a report from Aite-Novarica to examine the payments landscape in the UK & Europe leveraging their expertise and, also incorporating input from reliable public sources, including the ECB, central banks, SWIFT, the Euro Banking Association (EBA), the European Payments Council (EPC), and other market infrastructures. Additionally, Aite-Novarica Group also conducted qualitative interviews with European FIs, regulators, industry organizations, and the financial services technology community to gather or validate additional perspectives and source additional information.



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## The Detail

This report provides an overview of the major market infrastructure initiatives now underway for account-to-account (A2A) payments in the European Economic Area (EEA) and individual European markets (including the U.K.) and the implications of these changes for FIs and other stakeholders in the near to medium term. The analysis summarizes the current state of complex regulatory and technical infrastructure initiatives, including but not limited to areas such as the single Euro payments area (SEPA), the Nordic P27 project, and open banking initiatives. The study includes a discussion of pan-European initiatives such as SEPA instant payments, as well as regional/local initiatives in Austria, Belgium, France, Germany, Luxembourg, the Nordic countries, Switzerland (including Liechtenstein), and the U.K.



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**Given the increasingly dynamic and complex environment outlined in the previous sections, banks and other FIs are strongly motivated to invest in payments modernization to compete for new business while reducing costs and maintaining compliance obligations.**



## WHY IS THIS WORTH READING?

The European payments market is in a state of unprecedented change.

The digitalization of commerce continues to drive customer demand for payment solutions that are faster, more transparent, less risky, and cost-efficient. Instant payments are becoming the norm, facilitated by new settlement infrastructures such as the Target Instant Payments Settlement (TIPS) system. With the arrival of open banking, new payment models are emerging to compete with card payments as the dominant online payment method. These commercial drivers are underpinned by a constantly evolving regulatory regime mandating change and ongoing improvements with no end in sight. In the face of these developments, FIs need to modernize their payments infrastructures to stay compliant and create new customer value.

### SUMMARY AND KEY FINDINGS

Major trends such as the move to instant (real-time) payments and regulatory initiatives to increase competition and reduce fragmentation are reshaping the European payments landscape. This Aite-Novarica Group report provides an overview of the major market infrastructure initiatives now underway for account-to-account (A2A) payments in the EU and individual European markets, and the implications of these changes for financial institutions (FIs) and other stakeholders in the near to medium term. Key findings from this report are as follows:

**With the arrival of open banking, new payment models are emerging to compete with card payments as the dominant online payment method.**

- European FIs are working hard to implement a significant number of large infrastructural projects, including the migration to new clearing and settlement platforms (T2, TIPS, P27) and the migration to ISO 20022 messaging standards.
- FIs' resources are already constrained. Still, they need to prepare for upcoming regulatory changes, such as the expected requirement to adhere to the SEPA instant payments (SCT Inst) scheme, new requirements resulting from the review of the second Payment Services Directive (leading to a "PSD3"), and regulatory initiatives to stimulate open banking and open finance.
- Given this increasingly dynamic and complex environment, banks and other FIs are strongly motivated to invest in payments modernization to compete for new business while reducing costs and maintaining compliance obligations.
- Payments modernization is a top priority, but qualified resources with payment expertise in-house are scarce, requiring FIs to look for outsourced solutions. FIs generally prefer to buy software solutions—cloud-based, Software-as-a-Service (SaaS) solutions, in particular—rather than develop them internally.

## EXPECTED CHANGES AND IMPACT ON BANKS AND OTHER FIS

This section specifies the expected changes for banks and other FIS for Euro payments in each domain, starting with the payment facilitation domain (Table D).

**TABLE D: DEVELOPMENTS IN THE PAYMENT FACILITATION DOMAIN**

INITIATIVE	WHAT IS CHANGING	IMPACT
<b>SWIFT migration to ISO 2022</b>	November 2022 marks the start of migration to ISO 2022 (MX) for cross-border payments and reporting (CBPR+), with a coexistence period with MT messages until November 2025.	All SWIFT members must prepare for migration to SWIFT MX (and parallel support of MT).
<b>Revision of the Payment Services Directive ("PSD3")</b>	The European Commission has mandated the European Banking Authority to review PSD2 regarding the impact and application of the directive and any suggestions for possible improvements and amendments. The organization has recently delivered its review. <sup>1</sup>	All PSPs should prepare for further legislation of payment services in the EU and budget for mandatory investments to stay compliant. The new legislation will take a few years to be enforced, but the impact can be substantial. For instance, the European Banking Authority wants to address the expansion from access to payment account data to access to other types of financial data.
<b>New or adapted SEPA rulebooks</b>	The next version of the rulebook for SRTP is expected by the end of November 2022. The new SPAA rulebook consultation is running until September 2022.	FIS should decide if they want to adhere to these rulebooks and budget for investments in the required infrastructure.

Source: Aite-Novarica Group

<sup>1</sup> "EBA Replies to European Commission's Call for Advice on the Review of the Payment Services Directive," European Banking Authority, June 2022, accessed June 26, 2022.

Table E describes the changes and resulting impact in the clearing and settlement domains for euro payments.<sup>2</sup>

**TABLE E: DEVELOPMENTS IN THE CLEARING AND SETTLEMENT DOMAINS**

INITIATIVE	WHAT IS CHANGING	IMPACT
<b>Enforcement of SCT Inst</b>	The European Commission will present a legislative initiative (regulation) on instant payments in the second half of 2022 to reach full reachability for SCT Inst and accelerate the rollout of instant payments in the EU.	Adherence to SCT Inst is expected to become mandatory. All banks in the EU should prepare to allow their customers to send and receive instant payments. The new regulation may also cap instant payment pricing (to the level of regular SCT) and require banks to confirm the payee's account (name/IBAN check) to the payor.
<b>Launch of the new T2 settlement platform by the Eurosystem</b>	The Eurosystem has launched a project to replace Target2 with a new real-time RTGS system called T2 and optimize liquidity management across all Target services. The new consolidated platform will be launched in November 2022.	All Target2 banks must migrate to the new T2 platform by November 2022.
<b>Migration of EURO1 to ISO 20022</b>	EBA Clearing and its technology partner SWIFT kicked off the ISO 20022 migration project in 2018. The EURO1 ISO 20022 migration deadline was moved from November 2021 to November 2022.	All EURO1 banks must support ISO 20022 by November 2022.

Source: Aite-Novarica Group

<sup>2</sup> See also the consultation on the open finance framework initiated by the European Commission, "[Targeted Consultation on Open Finance Framework and Data Sharing in the Financial Sector](#)," European Commission, May 2022, accessed June 26, 2022.



## PAYMENT INFRASTRUCTURE DEVELOPMENTS IN UNITED KINGDOM

Despite officially leaving the EU at the end of 2020, the U.K. remains a key player in European payments. The U.K. holds one of the world's most advanced and dynamic payment infrastructure systems and remains a hub of global payments activity. Though it no longer aligns with EU regulations such as SEPA and PSD2, the U.K. is in most instances further advanced than much of Europe and remains a leader in real-time payments and open banking.

The U.K. has a strong regulatory regime but frequently changes the regulatory bodies overseeing major clearing and settlements infrastructures. For instance, the U.K. is the only country with a regulator specifically for payments (the Payment Systems Regulator or PSR). Formal management and operational responsibility for the core infrastructures of BACS, CHAPS, and Faster Payments was handed to Pay.UK in 2018. Pay.UK is overseen by the PSR.

Table L summarizes key payment clearing and settlement infrastructure in the U.K.

**TABLE L: KEY PAYMENT CLEARING AND SETTLEMENT INFRASTRUCTURE IN THE UNITED KINGDOM, 2016 VS. 2020**

SYSTEM	TYPE	TRANSACTIONS (MILLIONS)		TRANSACTIONS (EURO BILLIONS)		PARTICIPANTS	MANAGING AUTHORITY
		2016	2020	2016	2020		
<b>BACS</b>	Clearing	6.21	6.46	€4,776.5	€4,860.4	27 (direct)	Pay.UK
<b>CHAPS</b>	Clearing	0.39	0.45	€75,573.6	€91,908.3	36 (direct)	Pay.UK
<b>Faster Payments</b>	Settlement	1.43	2.85	€1,189.0	€2,100.6	35 (direct)	Pay.UK

Source: Pay.UK, Aite-Novarica Group

## WHAT IS HAPPENING NOW IN THE U.K.

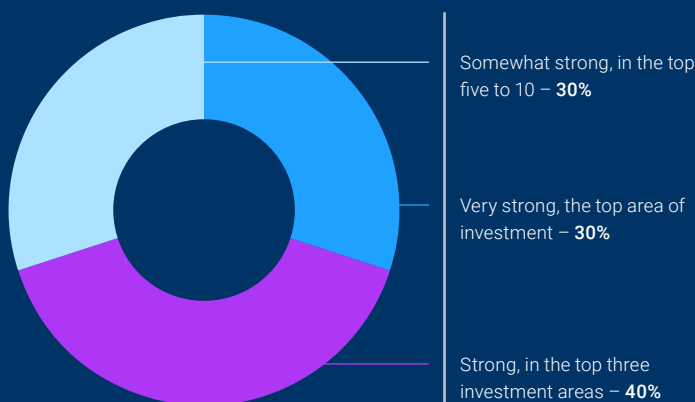
While outside the realm of EU mandates and ECB-driven initiatives, the U.K. is undergoing multiple ongoing changes to its payments infrastructure:

- **New payments architecture (NPA):** The U.K. has had widespread immediate payment capabilities since 2008. It is now renovating this infrastructure. The NPA will be a smarter way to move money and allow the U.K. to maintain leadership in interbank retail payments. The NPA will address the challenges presented by the rapid evolution of technology and competition, ensuring the U.K. payment infrastructure is robust and resilient and maintains an end-user focus. The aim is also to provide an attractive platform for innovation via APIs.
- **Confirmation of Payee (CoP), phase two:** Since its launch in 2020, more than 35 payment providers have signed up and implemented CoP. More are expected to sign up in 2022. In 2021, nearly 500 million CoP checks were successfully performed, covering over 95% of the applicable Faster Payment volume. In 2021, Pay.UK launched a new phase of CoP to expand eligibility to all account-holding payment providers. In May 2022, the PSR issued a consultation paper seeking to increase the number of U.K.-based FIs that are mandated to be CoP participants. Almost 50 organizations are expected to do so before June 30, 2023, and over 300 more by June 30, 2024.
- **Faster Payment System:** In April 2020, Pay.UK initiated an increase to the Faster Payment System transaction limit from 250,000 pounds to 1 million pounds in response to industry appetite. This change was implemented and completed in February 2022. The volume and value of payments processed to date demonstrate that the increase benefited banks, FIs, and end users. This increase will also help to develop parity with the transfer limits of other payment systems and provide PSPs with greater choice. According to Pay.UK <sup>3</sup>, Faster Payments processed 341.4 million payments in May 2022, a 29% increase from the number processed in May 2021. The total value amounted to 273 billion pounds for the month, a 38% increase in value on May 2021's total.
- **Request to Pay:** The rules and standards for the Request to Pay framework were launched in 2020 in close collaboration with the industry. Request to Pay is an innovative and flexible way to settle bills between people, organizations, and businesses. It is a standard messaging service that allows billers to request a payment and gives end users different payment options (e.g., in full, in part, ask

## THE NEED FOR PAYMENT MODERNIZATION

Given the increasingly dynamic and complex environment outlined in the previous sections, banks and other FIs are strongly motivated to invest in payments modernization to compete for new business while reducing costs and maintaining compliance obligations. Aite-Novarica Group research<sup>4</sup> indicates that payments modernization is a top priority for banks (Figure 4).

**FIGURE 4: IMPORTANCE OF PAYMENTS MODERNISATION**  
Q, How strong is the priority of payments modernization in your organization against other investigations? (N = 20)



Source: Aite-Novarica Group interviews with 21 retail banks, August to October 2020

Payments modernization appears at least in the top five to 10 priorities for the retail banks interviewed for this study. For five banks, payments is the top investment area, and another eight see it as one of the top three investment areas.

<sup>3</sup> "Faster Payment System Statistics," Pay.U.K., accessed August 10, 2022.

<sup>4</sup> See Aite-Novarica Group's report [Payments Modernization in Retail Banking](#), December 2020.

for more time, communicate with the biller, decline to pay) without changing their legal obligations. Technical and service providers are now part of the Request to Pay ecosystem, and more organizations are set to join the framework in 2022. Bottomline and other trusted service providers continue to collaborate with consumers, banks, fintech firms, and utility companies to develop the service. This includes Interactive Advance Notification to support the Direct Debit experience.

- **ISO 2022:** Pay.UK and the NPA believe that transforming U.K. retail payments to operate on the ISO 2022 standard is a significant opportunity in terms of investment and modernization for the U.K. retail payment systems. It will undoubtedly enable benefits throughout the whole ecosystem through new data-driven services for payments, improved operational efficiency, and fraud prevention.



## KEY AREAS FOR PAYMENTS MODERNIZATION

Banks are modernizing payments infrastructure across several dimensions to upgrade legacy systems and develop new technical capabilities (Figure 5).

**FIGURE 5: CAPABILITIES PRIORITIZED IN THE PAYMENT MODERNIZATION EFFORT**

Q: What technical capabilities do you plan to adopt as part of your modernization effort?  
(Select all that apply; Base 21)



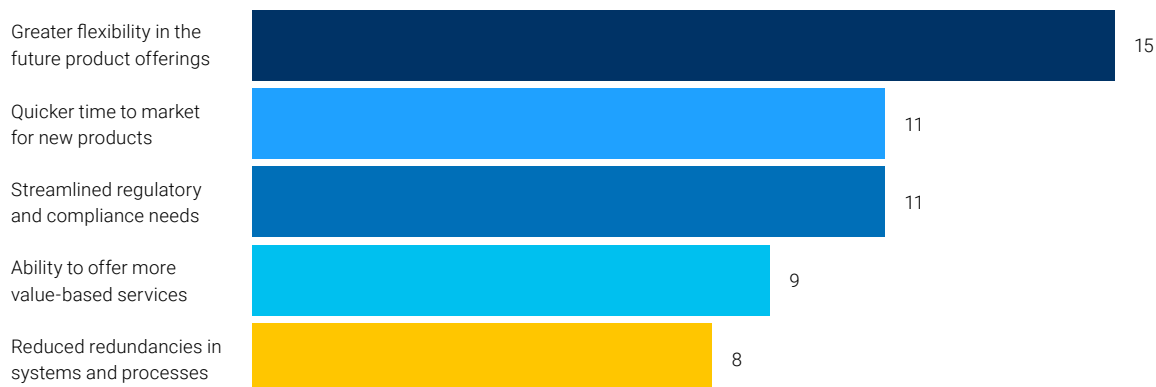
Source: Aite-Novarica Group interviews with 21 retail banks, August to October 2020

## RESULTS OF PAYMENTS MODERNIZATION

FIs engaged in payments modernization projects see clear benefits (Figure 7).

**FIGURE 7: BENEFITS OF PAYMENTS MODERNIZATION**

Q: What are the positive outcomes for modernization of payments in your organization?  
(Select all that apply; Base 21)



Source: Aite-Novarica Group interviews with 21 retail banks, August to October 2020

FIs see greater flexibility in future product offerings as the most prominent benefit. Payments modernization also supports quicker time to market for new products, improved infrastructure for managing compliance and operational needs, and the ability to offer more value-added services.

# BUY VS. BUILD

FIs generally prefer to buy software solutions (cloud-based solutions in particular) rather than develop them in-house. They are likely to develop or maintain mission-critical solutions in-house. However, respondents from FIs interviewed for this research indicate that qualified resources with payment expertise are very scarce, enforcing the need to look for outsourced solutions.

When purchasing a third-party processing platform, FIs apply the following key decision criteria:

- **Quality of the technology:** FIs require that a vendor's technology is secure, fast, and state of the art. Traditional legacy platform providers can offer robust and stable payment functionality, while newer entrants can deliver flexibility and the ability to implement new features/functionality quickly. In either case, the offering must be as stable and glitch-free as possible.
- **Geographic scope:** Commerce is global, and cross-border payments are increasingly important to consumers and businesses. Many FIs require a provider that can transcend borders and deliver functionality wherever clients are active.
- **Age of the platform:** Some core processing platforms available to FIs are 10 to 20 years old. While that helps ensure stability and reliability, technology has become increasingly sophisticated and cloud-based. FIs need a platform that allows them to compete effectively.

- **Stability and reputation of the company providing the platform:** Implementing a new payments software platform is complex and costly, and the relationship between the vendor and the FI client will be long term. The company offering the solution needs to be well regarded in the industry, stable, and in the business for the foreseeable future.
- **Flexibility and agility:** FI requirements are in constant transition. When coupled with the rate of change in the payments ecosystem, a vendor must be able to adapt quickly, support client-sourced changes, and deliver required new functionality as soon as demand is proven, and the solution is stable.

Interestingly, Aite-Novarica Group research indicated that price is not a primary decision factor.<sup>5</sup>

Technology vendors in the payments space should provide flexible, cloud-based solutions to banks to support their modernization journeys. Banks value partnerships over “**buy vs. build**” decisions, allowing vendors to establish longer-term relationships with their bank clients.

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<sup>5</sup> See Aite-Novarica Group's report [Aite Matrix: Payment Processing Platforms](#), January 2021.

## Conclusion

- The European payments market continues to evolve and change with a growing number of payment rail options available. European FIs increasingly need to be able to connect to a variety of systems simultaneously.
- Resourcing payments infrastructure modernization—and even operations—is becoming a significant challenge for many institutions, particularly as demand for these specialist skills and knowledge resources rises in all European markets at once. When possible, FIs and banks should rely on technology partners and service providers to help them resource these initiatives and manage ongoing challenges.
- European payment infrastructure modernization is an ongoing process. Multiple developments are happening at once, such as request to pay and mandatory SCT Inst participation rates. As rulebooks and capabilities evolve, banks and payment providers will need to handle multiple, simultaneous modernization projects.
- Despite the strong regulatory mandate of the ECB and the EU's appetite for SEPA harmonization, maintaining a competitive position remains a central plank of policy-making. As such, multiple systems will likely continue to exist simultaneously (e.g., TIPS, EBA's RT1), highlighting the need for connectivity.

**Major trends such as the move to instant (real-time) payments and regulatory initiatives to increase competition and reduce fragmentation are reshaping the European payments landscape.**





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#### Corporate Headquarters

325 Corporate Drive  
Portsmouth, NH 03801  
United States of America

Phone: +1-603-436-0700  
Toll-free: +1-800-243-2528  
Fax: +1-603-436-0300  
[info@bottomline.com](mailto:info@bottomline.com)

#### Europe, Middle East, Africa Headquarters

1600 Arlington Business Park  
Theale, Reading, Berkshire RG7 4SA  
United Kingdom

Tel (Local): 0870-081-8250  
Tel (Int): +44-118-925-8250  
Fax: +44-118-982-2253  
[emea-info@bottomline.com](mailto:emea-info@bottomline.com)

#### London

10 Aldersgate St.,  
Aldersgate, London EC1A 4HJ  
United Kingdom  
+44 (0) 207 105 0000