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Spotlight on Payments Technology  
Volume 1: July 2023

# About this newsletter

The payments industry is expanding rapidly owing to the increasing need for payment methods which are faster, more dependable, and more secure. To accomplish these objectives, nations throughout the world are taking actions to design, build and deploy newer/ improved payments systems/ networks.

This spotlight on payments technology newsletter, will be released monthly and will serve as a focal point for sharing information and related insights on such newer/ improved payments systems/ networks around the world.

The topic of this newsletter, the first of this series, is the impending **One-Leg Out (OLO) instant credit transfer payments** implementations in the European Economic Area (EEA<sup>1</sup>) zone.

## One-Leg Out instant credit transfer payment scheme:



**Reference data:** [SEPA OLO Rule Book](#) , [EPC documentation](#)



**Availability:** 24\*7\*365



**Transaction limit:** EUR 100,000



**Applicability:** European Economic Area (EEA<sup>1</sup>)countries, including non-Euro currencies



**Governing body:** European Payments Council (EPC<sup>3</sup>)



**Planned Go live:** November 2023

# Introduction



SEPA OLO/OCT<sup>2</sup> instant is the new payment scheme that is developed by European Payments Council (EPC<sup>3</sup>) for supporting cross-border and cross-currency instant payments.

The existing Single Euro Payments Area (SEPA<sup>4</sup>) framework allows instant payments in EUR currency only within the EEA<sup>1</sup> region, through the SEPA Instant Credit Transfer (SCTInstant<sup>5</sup>) scheme. However, this new scheme will extend the instant payments capability beyond the EEA<sup>1</sup> region and EUR currency. This will allow participating international Payments Service Providers (PSPs<sup>6</sup>) to support cross-border and cross-currency instant payments.

The key requirement outlined by the scheme is that at least a single participant must be situated within the EEA<sup>1</sup> region, necessitating one leg of the transaction to be conducted in EUR currency.

# Background

Based on the market research conducted by EPC<sup>3</sup> there was a specific ask from the market participants, to support the processing of multi-currency international payments, through an instant payments framework, so as to strengthen the role of EURO in the international markets.

The initial inclination was to enhance the existing scheme i.e., SCTInstant<sup>5</sup>, to include cross-border/cross-currency payments. However, suggestions from market participants, led the EPC<sup>3</sup> to develop a dedicated payments scheme for instant OLO credit transfers. As, based on the initial analysis, it was concluded that an independent payments scheme, with separate rule books is expected to ensure faster time to market. Further, since PSPs are already following the SEPA framework; the implementation of this scheme is expected to be an incremental change for the market participants.

The OLO credit transfer scheme also aligns with the G20 cross-border payments roadmap, endorsed by G20 finance ministers and central bank governors. This roadmap intends to accelerate, increase accessibility, transparency, and cost-effectiveness of cross-border payments. By enabling more efficient rapid credit transfers in Euro between SEPA and non-SEPA countries, the new approach directly advances these G20 objectives.

Below are the key features of the OLO credit transfer scheme:

- An account-to-account based payments solution that supports both incoming and outgoing international euro credit transfers in real time
- 24x7x365 processing of the Euro Leg of the OLO credit transfer scheme
- Optional scheme, available to any PSP present in the SEPA schemes' geographical scope
- The scheme encourages end-to-end processing of OCT Inst transactions via ISO 20022 standard-based XML messages
- Four main actors in the scheme are: Euro leg-based payee's PSP, Euro leg entry PSP, the Euro leg-based payer's PSP and the Euro leg exit PSP

# SCTInstant<sup>5</sup> vs SEPA OLO/OCT<sup>2</sup>

## SCTInstant<sup>5</sup>

Both the payment legs must be in EUR only

Only SEPA<sup>4</sup> PSPs<sup>6</sup> can enroll

No FX is involved

End to end transactions must be processed through SEPA<sup>7</sup> only

## SEPA OLO/OCT<sup>2</sup>

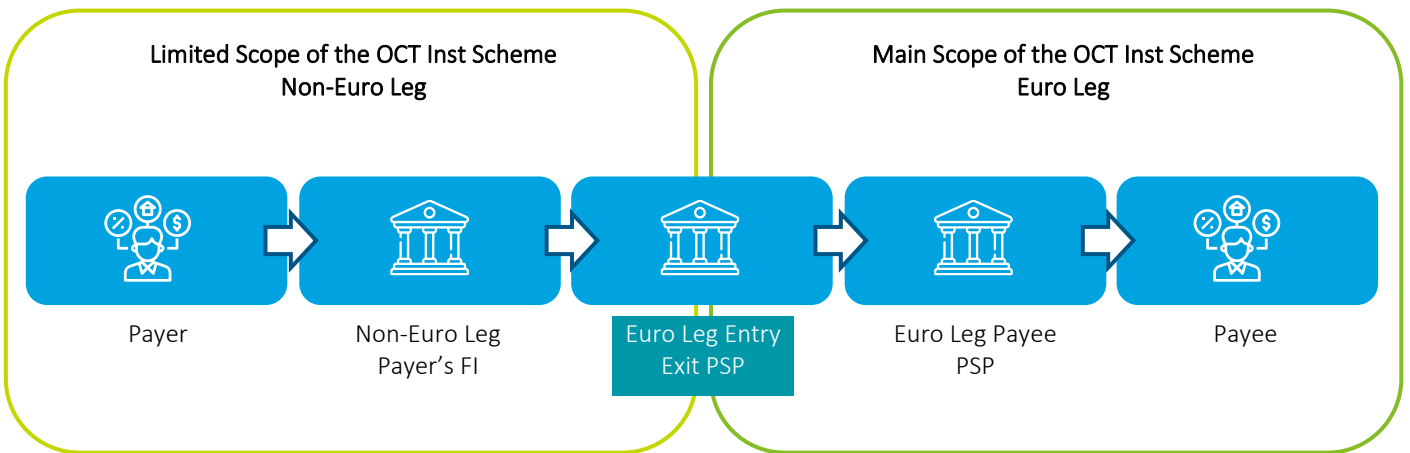
Payment initiation in any currency provided one leg is EUR

Any provider from any geography can enroll

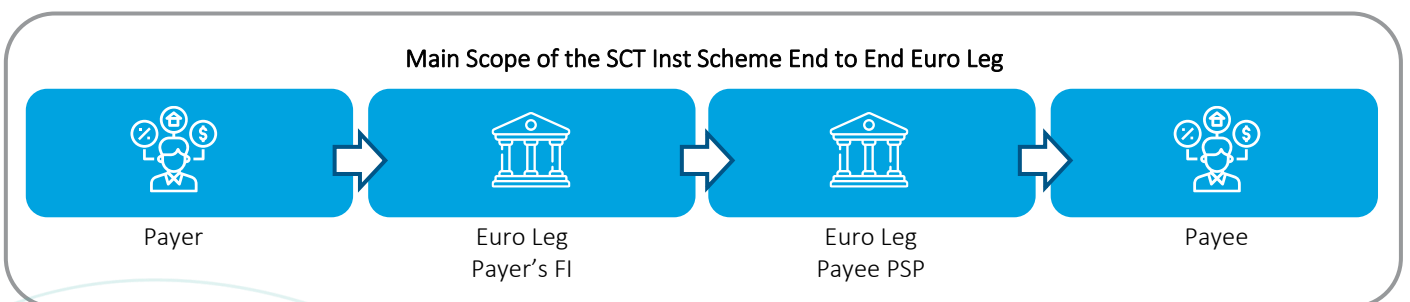
FX can be done at any stage in the credit chain

Non-EUR leg can be processed through any local rail of the host country

The image below illustrates the end-to-end processing of the SEPA OLO/OCT<sup>2</sup> payment.



The image below illustrates the end-to-end processing of the SCTInstant<sup>5</sup> payment.



The conditions under which the SEPA OLO/OCT<sup>2</sup> instant scheme or the SCTInstant<sup>5</sup> may be used are outlined in the table below:

For Euro-to-Euro transaction		
	Payee account held in	
Payer account held in	SEPA	Non-SEPA
SEPA	<i>SCT Instant</i>	<i>SEPA OLO/OCT instant</i>
Non-SEPA	<i>SEPA OLO/OCT instant</i>	<i>Non-EPC schemes</i>

For Euro and non-Euro transactions (and vice versa)		
	Payee account held in	
Payer account held in	SEPA	Non-SEPA
SEPA	<i>SEPA OLO/OCT instant</i>	<i>SEPA OLO/OCT instant</i>
Non-SEPA	<i>SEPA OLO/OCT instant</i>	<i>Non-EPC schemes</i>

# High Level Impact



## Business

- Each PSP will need to define their pricing strategy, as the fee to be charged to the customers is kept outside the scope of the scheme by EPC
- Time to market for launch of this new offering will be a key to retaining and attracting customers, as banks are likely to face stiff competition from FinTech players
- Business teams will need to define their product strategy along with other bundled product options to create competitive differentiation



## Technology

- Payment processing platforms will need to be updated to handle new routing scenarios (e.g., SEPA Instant vs. OLO based on location of actors, SEPA vs. non-SEPA, and currency), as well as new requirements for cross-currency transactions, FX, fee, billing etc.
- Peripheral applications such as KYC, AML, fraud management, etc. will have to be updated to handle the new routing scenarios
- Potential updates would be required in the payments initiation channels



## Operations

- Standard operating procedures (SOPs) to be created or updated covering processes such as payments processing, repairs, approvals, AML, fraud, inter-PSP inquiries, reporting, customer servicing and grievances for the new transaction types
- Customer education/ communication and training of internal staff to handle the new transaction types

# Benefits

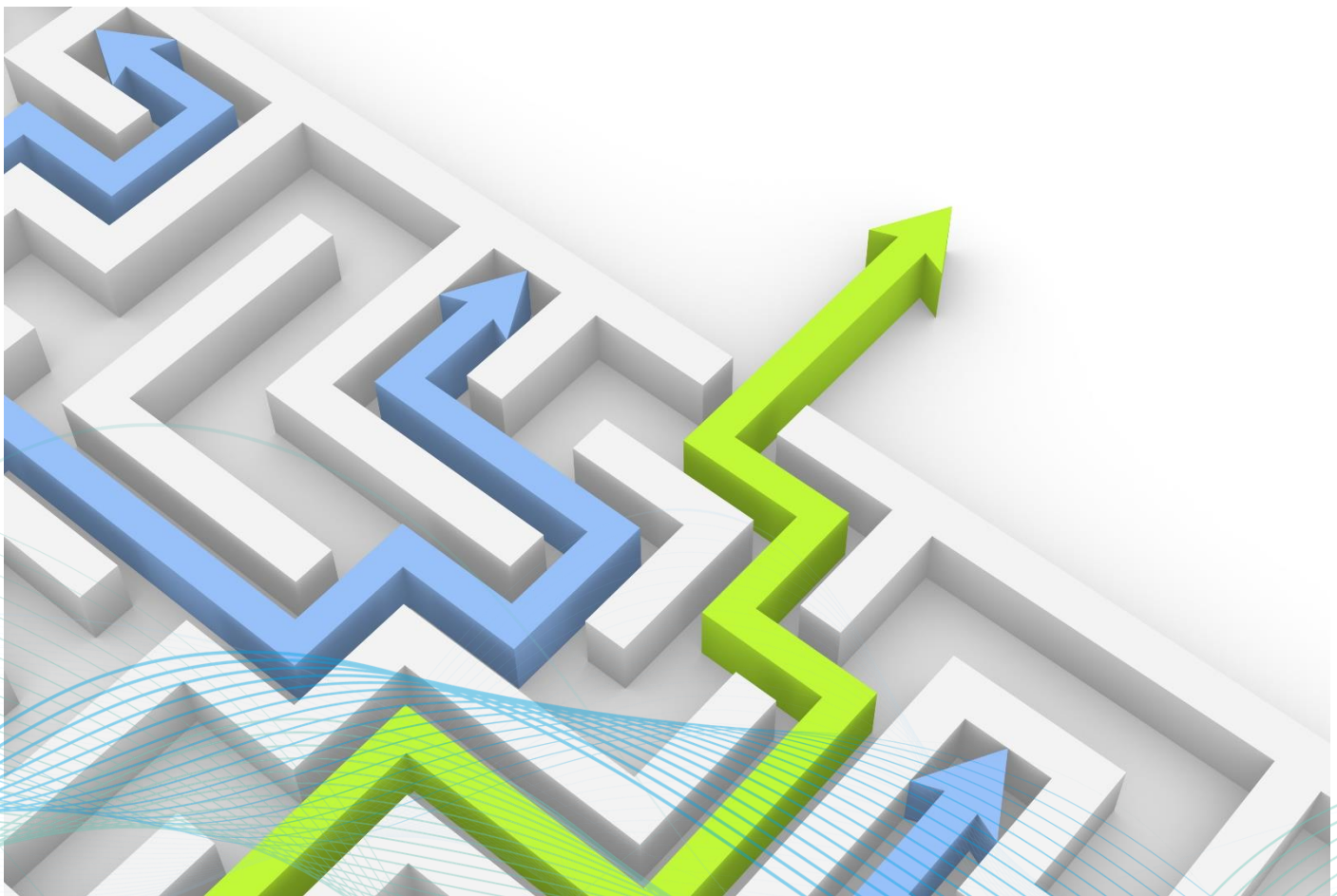
In addition to serving as an alternative for cross-border payments, this scheme will provide additional benefits for the PSPs<sup>6</sup> operating in the EEA<sup>1</sup> zone.

- 01 PSPs will be able to provide better up-front transparency on costs and better payments status traceability (by leveraging UETR and inter-PSP inquiries)
- 02 Potential to improve the liquidity management for Euro leg-based PSPs and their preferred non-EURO leg-based PSPs via the offset between incoming and outgoing payments positions
- 03 Participants can select non-Euro leg-based PSPs of their preference, which can present them with the most efficient and cost-effective routing and processing channels
- 04 Improved initiation and reconciliation of payments and higher straight-through-processing (STP) rates based on structured and richer data under the ISO 20022 XML messaging standard

# Key challenges

Along with the benefits of this new scheme, there are several anticipated challenges: -

- 01 Legacy payments systems and processes may not be well-equipped to handle cross-border instant credit transfers
- 02 Adoption of standardized data sharing mechanism between different parties for fraud detection and prevention
- 03 Need for a comprehensive legal framework that covers each party's responsibilities and rights in instant cross-border payments transactions
- 04 Implementation of routing logic in legacy payments systems based on currency, location of payer and payee, and preferred non-Euro payee





# Key take aways

To sum up, this scheme can be seen as European market's endeavor to extend its payments options globally, aiming to accelerate and streamline cross-border payments, while providing more transparency on the costs and better payments traceability.

The adoption of this product will primarily be driven by the commercial model offered by the PSPs, as setting up of the fee/charges is outside the scope of this scheme. As participation in the scheme is optional, PSPs need to define a compelling business model, considering the cost of providing this product to existing and new customers and the revenue potential offered by the scheme.

To adapt to this new payments system, traditional banks must act quickly and make use of their current infrastructure, customer base, and compliance knowledge. However, their time to market would depend on the ability of the legacy platforms and processes to quickly adapt to the new requirements. However, as compared to traditional banks, FinTech players with the latest technology stack and agile processes are well positioned to foray into cross-border payments space, leveraging the OLO instant credit scheme.



# Other Industrywide advancements

Region	News	Description	Link
North America	Federal Reserve announced organizations which are certified as ready for the FedNow Service to be launched in July 2023	Federal Reserve announced that 57 early adopter organizations, including financial institutions and service providers, had completed formal testing and certification on the FedNow Service in advance of its launch in late July.	<a href="https://www.frbservices.org/financial-services/fednow/organizations-certified">https://www.frbservices.org/financial-services/fednow/organizations-certified</a>
	Payments Canada further delays real-time payment launch	Payments Canada is to conduct a second review of its proposed Real-Time Rail (RTR) payments system, pushing the delivery deadline for the troubled project further into the future.	<a href="https://www.finextra.com/newsarticle/42476/payments-canada-further-delays-real-time-payment-launch">https://www.finextra.com/newsarticle/42476/payments-canada-further-delays-real-time-payment-launch</a>
EMEA <sup>11</sup>	GCC <sup>12</sup> , BUNA <sup>13</sup> payment vs payment (PVP) went live in May 2023: BUNA <sup>13</sup> is now transforming how FX transactions can be conducted.	The new service from BUNA <sup>13</sup> creates a more open and safer FX market! It offers financial institutions taking part in BUNA <sup>13</sup> an open market to conduct FX dealings directly with one another and makes it possible for the transactions that arise to be safely and securely settled in BUNA <sup>13</sup> . Participants in BUNA <sup>13</sup> can now gain from increased operational effectiveness, fewer risks, and incremental value addition.	<a href="https://buna.co/announcement/buna-launches-a-new-service-establishing-a-more-accessible-and-more-secure-foreign-exchange-fx-market">https://buna.co/announcement/buna-launches-a-new-service-establishing-a-more-accessible-and-more-secure-foreign-exchange-fx-market</a>
	UAE is launching an instant payment platform (IPP) in 2023	The drive towards real-time digital payments in the UAE is set to accelerate this year with the introduction of a scheme, due for launch in the fourth quarter. The UAE Instant Payments Platform (IPP) will enable transfers between bank accounts on a 24*7*365 basis.	<a href="https://pymnts.com/uae-instant-payment-platform-set-for-2023-launch">UAE instant payment platform set for 2023 launch (pymnts.com)</a>
	T2 replaces Target2 and went live on 20 March 2023	The new T2 wholesale payment system, which includes a RTGS <sup>14</sup> system and a central liquidity management tool, has been successfully introduced by the euro system. T2 will provide updated and improved services, utilizing the ISO20022 communications standard and enabling the processing of payments in different currencies.	<a href="https://europa.eu/Successful-launch-of-new-t2-wholesale-payment-system">Successful launch of new t2 wholesale payment system (europa.eu)</a>
India	RBI to introduce a new lightweight payment system, calls It "A bunker equivalent in payment systems"	Reserve Bank of India has conceptualized a Lightweight Payments and Settlement System (LPSS). This payment system is meant to facilitate transactions in catastrophic events like natural calamities and wars. It is expected to operate on minimalistic hardware and software and would be made active only on a need basis.	<a href="https://rbi.org.in/scripts/AnnualReportPublications.aspx?Id=1380#B3">https://rbi.org.in/scripts/AnnualReportPublications.aspx?Id=1380#B3</a>

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# References and notes

**EEA<sup>1</sup>** it stands for European Economic Area. The EEA aims to strengthen trade and economic relations between each of the EEA countries.

**SEPA OLO/OCT<sup>2</sup>** the SEPA One-Leg Out (OLO) or OCT (OLO Credit Transfer) is the Instant Credit Transfer Scheme dedicated to International Instant Credit Transfers.

**OLO:** One Leg Out transactions refer to payments and transactions where the payer or recipient's Payment Service Provider is located outside the EEA, but a customer's account is held within the EEA

**EPC<sup>3</sup>** European Payments Council these schemes make it possible for consumers to rely on just one payment account to make Euro Credit Transfers and Direct Debits.

**SEPA<sup>4</sup>** Single Euro Payments Area is a system of transactions created by the European Union (EU).

**SCTInstant<sup>5</sup>** SEPA Instant Credit Transfer (SCT Inst) is an instant payment instrument for the execution of Credit Transfers in EUR.

**PSPs<sup>6</sup>** Payment Service Providers, also known as merchant service providers, are third parties that help merchants accept payments.

**SWIFT<sup>7</sup>** Society for Worldwide Interbank Financial Telecommunication, is a global member-owned cooperative that functions as a huge messaging system.

**MSME<sup>8</sup>** Micro, small, and medium enterprises rules for payment refer to the regulations and guidelines that govern the payment terms and conditions for transactions between MSMEs and their buyers.

**FATF<sup>9</sup>** The Financial Action Task Force is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering and terrorist financing.

**AML<sup>10</sup>** Anti-Money Laundering (AML) is a valuable tool in the fight against financial crime. It is also an area that brings major challenges, particularly for correspondent banks.

**EMEA<sup>11</sup>** Europe, Middle East, Africa.

**GCC<sup>12</sup>** Gulf Cooperation Council.

**BUNA<sup>13</sup>** The Arab regional payment system (BUNA) is a centralized multi-currency platform that enables financial institutions (including commercial and central banks) to send and receive cross-border payments across the Arab region and beyond, in Arab and key international currencies.

**RTGS<sup>14</sup>** Real-Time Gross Settlement, meaning that through this method, the money is transferred from one bank account to the other in real-time, without any delay.



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