Priorities in the payments area

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The shifting payments landscape – what to expect from the market and the legislature

The saying that time is money fits well for today's fast and virtually inter-connected world, where everything has to be instant and immediately to hand. As the economy and our lives undergo this digital transformation, the ways we do business and use banking services are becoming more efficient than ever before. Simplicity and security have always been the key requirements of banking and payment solutions, but consumers and businesses now expect even more. New payment solutions are expected not only to enable the instant transfer of funds, but also to be integrated with our lives and the business environment.

Demand is growing for solutions that make the entire payment chain more efficient. This applies to payments between people and to those in e-commerce, as well as to payments at any physical point of interaction were goods are sold or services rendered. The trend is away from cash and cards and towards digital wallets, including mobile ones, that aggregate accounts and payment instruments while delivering a seamless user-experience. The technology is there for us to be able to make purchases by walking through a store, taking the goods we want, and leaving without having to stop to pay at the checkout. We could even let a virtual assistant take care of the grocery shopping and delivery of it.

The industry needs sufficient time to self-regulate and agree on rules and standards that will facilitate the development of efficient payment solutions at the pan-European level. The recently updated legal framework improves customer protection, encourages innovation and fosters a level playing field for payment services providers, or PSPs. These PSPs need to keep the momentum in the rollout of SEPA instant payments and the implementation of the changed legal requirements, and adjust to the new reality of open banking introduced by the PSD2's payment initiation and account information services that will go live in September this year.

Building new and interoperable payment solutions on top of SEPA instant payments and open banking will strengthen the European payments industry. Moreover, doing so will help keep funds safely in the regulated financial system and avoid a sudden outflow into global platforms that use closed-loop e-money or crypto assets as a means of instant payment in their digital marketplaces. This, however, assumes that SEPA instant payments become the default option for making euro credit transfers and that the new payment solutions are as easy to use as cash or card payments. To make this happen, the PSPs and merchants at both the national and European levels are cooperating on steps towards finding the best possible instant payment solutions that will fit in the digital wallets of consumers.

>>> Nevertheless, history has shown that even if the industry does come up with a pan-European scheme, some regulation might be warranted for it to be made into a new standard. The migration to SEPA payment instruments in 2014 is an example of how setting an end-date through regulation can benefit everyone. It established the common norm for payments that is now used by over 500 million people every day. With the introduction of SEPA instant payments, consumers and businesses throughout Europe expect this common norm to be upgraded. It now seems that this upgrade will happen through self-regulation in the market, though we do not yet know this for sure.

Ultimately, all payments across borders in Europe need to function smoothly, securely and under equal conditions. To achieve that, several issues still need to be discussed between the legislator and the industry, such as SEPA payments from and to non-EU countries, and equal conditions for banks and non-banks using SEPA payment systems. ●

Marc Bayle de Jessé

Director General Market Infrastructure and Payments, European Central Bank (ECB)

The development and roll-out of pan-European instant payments

Over the last decade, instant payments have been implemented in a number of national communities in the EU, e.g. in the United Kingdom, Denmark and Sweden. Other communities have put forward their plans for developing national schemes. To ensure that the introduction of innovative payment products and services does not reintroduce fragmentation into the European retail payments market, the Euro Retail Payments Board (ERPB) pushed for the development of at least one pan-European solution for instant payments in euro. Taking up the call, the European Payments Council developed the SEPA Instant Credit Transfer (SCT Inst) scheme.

Since the launch of the SCT Inst scheme in November 2017, about half of all payment service providers offering credit transfer services in the SEPA countries have joined the scheme. The uptake varies greatly from country to country. In a few countries, the vast majority of citizens and businesses can now make and receive instant payments. In others, no payment service provider is offering instant payment services yet.

A positive example of a country that has achieved broad reach in a short amount of time is Spain, where the payment service provider community cooperated on SCT Inst implementation as well as on a common person-to-person mobile payment service. It has been reported that the payment service providers participating in instant payments now represent 90% of the payments market, and that close to 8% of credit transfers in Spain are processed as instant payments (Source: Iberpay).

Over the next few years, it is expected that instant payments become the new norm across Europe. To get to that point, however, considerable efforts are still needed to ensure that all payment service providers join the SCT Inst scheme, are reachable for transactions at the pan-European level and offer their customers attractive SCT Inst based services for different use cases.

Having a pan-European wide reach is essential for instant payments because customers of any payment service provider should be able to send and receive payments to and from customers of any other payment service provider in Europe. The Eurosystem supports the goal of establishing pan-European reach for instant payments by offering TIPS, which settles instant payment transactions in central bank money across Europe, 24/7/365 and within a few seconds. Availability of instant settlement in central bank money in our digitalising society is key to preserve the confidence in the euro and its sovereignty.

"The Eurosystem supports the goal of establishing pan-European reach for instant payments by offering TIPS."

\- MARC BAYLE DE JESSÉ

For instant payments to live up to their full potential, attractive end-user solutions are required allowing retail payment customers to initiate and receive instant payments in a convenient way, suitable to the specific situation in which these payments take place. Technological progress is global. Hence, it seems almost anachronistic if innovative payment products and services are restricted to national >>>

>>> markets. Even if the roll-out of new products and services starts at national level, they should not incorporate any intrinsic barriers preventing their domestic pan-European expansion. Instead, services offered should provide for pan-European reach in their initial design, taking our economic area as domestic basis. SCT Inst, being a pan-European scheme, offers an opportunity for European payment service providers to develop innovative solutions with pan-European reach, thereby allowing them to compete with global players for intra-European payments. While Europe is open to global, non-EU payment service providers that fulfil the European regulatory requirements, it is in the interest of the retail payment service users of Europe to provide for healthy competition from pan-European payment service providers that offer innovative, safe and user-friendly solutions.

Pia Sorvillo

Director of European Affairs, Visa

Driving forward the payment landscape transformation

By September this year, virtually each digital transaction in Europe will have to comply with new rules, designed to enhance payment security. We all know that security is key for digital commerce to exist and thrive, yet we also know that is equally key to strike the right balance between security and convenience. This is especially true in a world where consumers are empowered to make purchases across a range of connected devices and expect a secure and seamless payment experience. Any hurdles at checkout risk annoying consumers and losing business for retailers.

We should be mindful that consumers expect both high levels of convenience and safety.

The payment industry has been preparing carefully to try and meet the September deadline, despite the outstanding questions on the interpretation of the very complex EU regulatory framework. Visa – amongst others - has engaged closely with regulators across Europe to support understanding of the potential impact of the strong customer authentication (SCA) rules for the payment ecosystem.

At the core of Visa's approach to delivering SCA is our 3-D Secure (3-DS) platform and Verified by Visa service. We are also helping banks and merchants to integrate biometric authentications measures into their banking apps and websites, so that consumers can simply log in on their connected device and use their fingerprint, their voice or even use facial recognition to complete a purchase. Biometrics are the next logical step in the authentication of payments, as they typically match convenience with security.

However, we are concerned that a substantial number of small merchants is not 3-DS enabled to date. In fact, industry intelligence indicates that as many as 75% of all online merchants in Europe may be unaware of the SCA requirements that will come into force in September.

So, what happens to all these small merchants that are not aware or otherwise ready to implement SCA?

As from 14 September 2019, merchants without 3-DS can still send transactions to acquirers for authorisation. However - without the rich data available through 3-DS - neither the acquirer or the issuer will have sufficient information to assess the actual risk of fraud to decide whether the transaction could be exempted from SCA under the Transaction Risk Analysis. And even if the transaction were to fall under other exemptions (e.g. low value or 'white-list'), without insight into the actual risk of fraud, no acquirer or issuer is likely to process these transactions without SCA. In fact, these transactions will most likely be all declined. Visa is working to raise awareness on the huge business disruption risk small merchants are facing.

Brett Loper

Executive Vice President, Global Government Affairs, American Express

Taking stock of the Interchange Fee Regulation

Some three and a half years since its introduction, we can now start to take stock of the impact of the Interchange Fee Regulation (IFR) on the E.U. cards market. Built on competition investigations by the Commission and the National Competition Authorities, the Commission's ambition was to help construct a single market for card payments across the E.U., creating a level playing field to allow more competition and spur innovation in payments, to the benefit of merchants, consumers and payment providers alike.

Judged against these goals, the IFR has fallen short. Well short. At best, its impact on competition has been mixed. While we may be witnessing a nascent move to pan-European acquiring, no new pan-European payment schemes have entered the market. If anything, we have seen a marked reduction of competition in several Member States, and a reinforcing of the strength of the two-dominant card schemes. >>>

>>> The IFR has also failed to deliver lower prices for merchants and consumers in a meaningful way. The major expectation was that merchants would see reductions in the cost of accepting cards, which in turn would be passed on to consumers through lower retail prices for goods and services. And while the capping of interchange has certainly impacted the issuers' revenues, the small and medium-sized merchant community in particular is arguing that they have not received the full interchange reductions and have been impacted by increased scheme fees and other costs.

From a consumer choice perspective, the IFR has also brought a raft of unintended consequences, with a number of card issuers withdrawing or scaling back various benefits of card usage, and introducing or increasing cardholder fees or annual charges in response to the interchange cap.

Moreover, with different surcharging regulations in every Member State, this highly fragmented and confusing landscape has left consumers vulnerable to discriminatory surcharging practices which are both unintelligible and unenforceable.

"The IFR has also failed to deliver lower prices for merchants and consumers in a meaningful way."

- BRETT LOPER

Going forward, to avoid the unintended consequences that have impacted the effectiveness of the IFR, regulation has to move away from the one size fits all approach, and towards one where alternative payment providers, new entrants and smaller competitors do not suffer unwarranted and stifling regulatory burdens, that only serve to entrench the duopoly card schemes. Critically, when the Commission begins to consider the next round of payments regulation, the priority needs to be on enabling real choice for consumers and merchants. Concretely, rules around additional transparency need to be evaluated, mandating card schemes to disclose more clearly all types of fees merchants pay. This would provide merchants (especially small ones) with a more accurate picture of the total cost they bear and would allow them to better compare the costs of different schemes.

Not least, from a consumer perspective surcharging should be completely banned across the E.U., to achieve the Commission's long-held aim of a truly common regulatory regime in the single market. ●

Florence Lustman

Chief Finance and Public Affairs Officer, La Banque Postale

Reconciling the security of means of payment with their accessibility

Means of payment are at the core of trust-based relationship that banks have historically built with their clients, on the one hand, and with the political and regulatory authorities, on the other. Banks know how to manage these issues and have consistently invested in new means of payment and payment infrastructures that are increasingly convenient, efficient, fast and secure.

But this model could be battered by a triple revolution: technological, economic and regulatory. Many new means of payment have emerged in the last decade, with a focus on real-time, if not the elimination, of the act of payment, be it contactless, instant payment, mobile payment or payment via IoT. New economic players, such as large internet-related groups and FinTechs, have burst onto the scene. Lastly, from a regulatory standpoint, several European texts have prompted changes in the payment's ecosystem and its underlying economic model.

This disruption of the payment ecosystem raises an important question: who should pay to develop both new and aging payment infrastructures and to secure new means of payment? The issue arises because the cost of these innovations is not limited to a particular new tool developed by a particular actor. Their cost must include banks' investments in their core banking and IT infrastructures to guarantee security and address new risks. The question becomes even more acute when it comes to instant payment. It's expensive to build, maintain and monitor a system that runs 24/7/365! To continue to invest in security, banks need to be able to rely on an economic model where the revenues contributed by means of payment is not merely "marginal".

The distribution of value in the payment chain raises other regulatory, economic and even political questions within Europe. It is therefore worth asking whether the systemic risk incurred by the new means of payment is properly understood, given the major changes resulting from the proliferation of new players. Why not provide for "resilience plans", as is the case for cash? Questions may also arise about the impact of the 2015 MIF regulation: have the lower interchange fees really been passed on to consumers as anticipated? One thing is clear: we need to take time to conduct thorough impact analysis before committing to new regulatory developments. Last but not the least, we also need to think about the Single Euro Payments Area's dependence on non-European players who share neither the same goals nor the same values. This applies in particular to personal data processing; banking data are particularly sensitive and could be mined and disseminated.

While the new means of payment require extra vigilance, they also pose a societal problem that has not been adequately taken into account: many of our fellow citizens are likely to abandon means of payment if their level of sophistication becomes a deterrent. In addition, for some — the elderly and the vulnerable — cash is still preferred on a day-to-day basis. La Banque Postale is paying particularly close attention to this issue and has notably continued to distribute cash at its counters. This is how we are ensuring that digitally-excluded citizens are not excluded from the banking system and that all are free to choose their means of payment. ●

Stephen Lindsay

Head of Standards, SWIFT

Digital ecosystems, APIs and Standards

The importance of digital ecosystems continues to grow. McKinsey advises that 'Staking out a position in ecosystems is important, because enormous value could be up for grabs … by 2025, some $60 trillion in annual revenue could be redistributed across the economy—one-third of that year's total'[1]. Ecosystem business partners interact constantly through Application Programming Interfaces (APIs) and banks that will play a role in digital ecosystems need to adapt to this way of working. PSD2 requires European banks to implement APIs for access to account and payment initiation, and although the focus is initially on retail banking we can expect the same technology to be adopted quickly for other segments.

PSD2 therefore acts as an important catalyst to prepare the banking industry in Europe for the challenges of a digital future, where expectations of the new connected businesses will be for simple and seamless integration of banking services, from basic payments to financing and beyond.

Although sometimes considered anathema to ideals of innovation, standards will be key to the evolution of digital ecosystems. Business standards specify common definitions and structures for financial information exchanged by business partners. Without them, individual service providers will expose proprietary definitions and formats, resulting in fragmentation and an avoidable legacy of cost, complexity and friction. Several organizations are already working to standardize PSD2 API specifications. As a bank-owned cooperative with a longstanding mission to promote standardization, SWIFT supports this work and encourages further industry cooperation to define flexible but interoperable API specifications for common services. ●

1. McKinsey Insights: Winning in digital ecosystems

Ashley Fox

MEP, Committee on Economic and Monetary Affairs, European Parliament

PSD2 vs GDPR - The need for clarity

As data grows as a commodity, business models start to adapt and naturally so too does legislation. Arguably, the General Data Protection Regulation (GDPR) and the Payment Services Directive (PSD2) will have the greatest impact on the payments industry in the coming years. Whilst PSD2 forces banks to open up customer payment account data to third party providers (TPPs) in a bid to increase competition, the GDPR aims to regulate how this sharing is done. Whilst the two pieces of legislation have the same objective of putting the control of data back in the consumers' hands, they were drafted independently of each other and there are instances where they are not entirely consistent.

Under Article 67 and 94 of PSD2, banks are required to provide TPPs with access to customer payment account data on the proviso that they have 'explicit consent'. This has created a number of issues.

Firstly, under the GDPR, there are six grounds for processing data and consent is one of them but there is also permission where the processing of the data is necessary to perform a contract. In this scenario, the processing of personal data is necessary to perform the contract that is payment initiation. Given this, there should be no need for the consumer to provide consent. Nevertheless, PSD2 does increase the level of protection needed and requires for 'explicit consent'. Yet, what 'explicit consent' actually is has not been defined. There is a lack of certainty as to what additional details are needed to make consent 'explicit'. In private discussions with the Commission in Brussels, it has transpired that explicit consent may take the form of an additional clause to the contract that specifies the purpose for which the data will be provided. However, private conversations in Brussels will not provide clarity to banks and TPPs in Romania.

With the failure to provide clarity on this matter, there is the potential to undermine the objectives of PSD2. As we saw almost 18 months ago in Poland and the Netherlands, banks were restricting access to customer payment data to TPPs in the fear that they would breach the GDPR. However, this instead led to raids on their buildings due to complaints from TPPs that they were not being given access to data as per PSD2.

"The future of the payments sector relies on the safe and free flow of data."

\- ASHLEY FOX

This will not be the last time something like this will happen. There are still a number of outstanding questions. For example, should the onus be on banks or the TPP to obtain consent? Who is responsible in a breach? and should banks be expected to perform due diligence before sharing customer data?

As long as there are inconsistencies such as these and as long as either legislation fails to establish primacy, it is likely that banks will take a more conservative interpretation so as to avoid the fines of up to 4% of global turnover as per the GDPR and subsequently stifle competition.

The future of the payments sector relies on the safe and free flow of data. Where there is a lack of clarity over the interpretation of PSD2 and the jurisdiction that GDPR has over the payments industry it will be difficult 'to create safer and more innovative European Payments'. ●