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European retail payments – the EU's defining moment

In the last decade, Europe has been a global pioneer and a standard-setter in terms of payments. The second Payment Services Directive ("PSD2") in particular has been one of the most revolutionising pieces of legislation in decades, especially when it comes to boosting innovation. Implementing all of its estimable objectives, however, has proven harder to achieve than many would have thought, and these shortcomings provide valuable lessons for the future.

Indeed, Europe's future as a world leader in this area is anything but certain. Today, the region is part of a highly connected world, where physical borders matter less than ever. When shopping online, today's consumers want limitless options. They expect to be able to buy from any EU Member State, Asia or the United States, with no or few restrictions. All the evidence suggests that these expectations are even more pronounced among millennials, who pay little heed to the provenance of the goods or services they select. They just want the best online service they can get.

These generational changes imply both risks and opportunities for companies, regardless if they are European or non-European. One thing, however, is certain: companies which can match consumer expectations with global market realities, while providing the seamless and fast service consumers want, and the security they demand, are the ones that will succeed.

Yet over the last two years, the EU has advocated for a pan-European solution in the payments market, with many policymakers calling for more investment in domestic solutions. On the face of it, a pan-European scheme would increase competition and provide consumers with a new choice in an otherwise duopolistic card payments' market. This increase in choice is something we would welcome. However, in a world where consumers wish to shop globally, any domestic or regional solution must be able to meet their needs by offering not just speed and reliability, but true global interoperability. Without this, no amount of political support will be enough to ensure a new, home-grown European scheme can succeed.

While considering the development of pan-European solutions, we believe there are also other paths the EU could, and should, consider to increase competition even further. For instance, PSD2 - as well as PSD1 - focused on measures that sought to encourage competition, by facilitating the entry of non-bank players to the market. The EU should assess how to replicate similar measures, for instance by broadening the scope of open banking to open finance, bring into scope the full range of financial services – from insurance to savings and pensions products – that European consumers and small businesses crave.

By the same token, it is incumbent on the EU to address the shortcomings of existing pieces of legislation, most notably the Interchange Fee Regulation (IFR). That Regulation, too, was intended to boost competition, but instead reinforced the existing duopoly by focusing almost entirely on price reduction – a savings which has yet to be truly passed on to consumers. Any future review should bring back genuine competition to the heart of the IFR, by making it easier for new and small players to enter and to thrive.

The stakes could hardly be higher. For whatever path is finally chosen, it will have the potential either to secure or to scupper the EU's place as a global competitor. ●