Pan-European retail payments

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Key requirements for a future-proof European retail payments market

The transformation of the retail payment landscape is driven by technological progress, legislative and regulatory action and cross-industry initiatives led by large global digital firms. Keeping step with these developments puts established banks and payment service providers increasingly under pressure.

In Europe, the payments industry is at risk of losing its economic edge. Whereas a fair level of progress has been achieved at the back-end of the retail payments chain with harmonised SEPA standards and pan-European settlement, the customer front-end, in particular for point-of-sale and online payments, remains fragmented along national borders. This predominance of country-specific solutions hinders competition and stifles innovation at the pan-European level.

In addition, a growing dependence on non-European global players creates the risk that the European payments market will become susceptible to external disruption. Furthermore, global service providers with market power may not necessarily act in the best interest of European stakeholders.

The only effective remedy to this situation is the development of an industry-led, pan-European retail payment solution that facilitates instant, secure and inexpensive payments – both online and in brick and mortar stores. With the aim of fostering pan-European market initiatives for retail payments at the point of interaction (POI), the Eurosystem has put forward a payments strategy that provides conceptual vision as well as high-level guidance to the market. Market initiatives aiming to deliver pan-European retail payment solutions would have to fulfil five key objectives.

First, customers should be able to make POI payments throughout the entire European Union just as efficiently and safely as in their home country. To this end, pan-European reach with wide merchant acceptance is required.

Second, to achieve a high degree of customer acceptance, such a solution needs to be designed in a way that enables an easy, flexible, secure and user-friendly payment experience for both consumers and merchants. It should be flexible enough to allow the use of different payment instruments, initiation channels and technologies.

Third, a new European payments solution must comply with all relevant legal and regulatory requirements. To boost consumer confidence, it should provide the highest levels of fraud prevention and offer consumer protection with robust complaint and refund procedures.

Fourth, it should aim to foster European identity by using a common brand and logo. A European governance structure would enable European payment stakeholders to have direct influence on the strategic direction and business models.

Fifth, to reinforce economies of scale and domestic adoption and to keep step with other global solutions, a new European solution should also be accessible to merchants based outside the EU.

European stakeholders are invited to step up their collaboration and act together. ●

Stéphanie Yon-Courtin

Vice-Chair & MEP, Committee on Economic and Monetary Affairs, European Parliament

The pan-European payments market: innovative competition and protective autonomy

A pan-European market for payments is at the heart of the EU promises to consumers and businesses. It should at the same time allow for innovation through competition on a level playing field and build autonomous capacity in the EU in light of growing global fragmentation and economic stimulus needs post-COVID crisis.

Decisive EU action to open competition in the retail payment space, in particular thanks to open finance pioneered in the Payment Service Directive (PSD2), has brought about innovation to the benefit of European consumers. Digital services offered by innovative players – for example on international transfers or currency conversion – have eased the daily ▶

lives of citizens travelling across the European continent and abroad. Through price transparency, consumers have been empowered to start a new dialogue with incumbent providers on payment services and associated charges. Consumers can also rely on price regulation when transparency is not enough to ensure they receive a fair treatment.

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This welcome innovation should however not be at the expense of the protection guaranteed to all EU citizens. The EU rulebook on anti-money laundering, security, privacy, and consumer protection should be respected with the same level of ambition when the nature of services is comparable, regardless of the provider and with an equal level of protection across the EU. When exploring new payments solutions, we should also remain mindful of citizens that are less digital literate and that could encounter accessibility challenges.

European businesses have also benefited from the gradual buildup of an efficient payment system for the single market. The Single Euro Payments Area (SEPA) and the most recent TARGET Instant Payment Settlement (TIPS) have already shown the benefits of EU action to accelerate C2C, C2B and B2B transactions within the Eurozone. Cryptocurrencies could further smooth payment operations in the future. Enhanced individual portability of data access and reuse could also fuel innovative business models at all levels of the payment value chain.

European autonomy should be the cornerstone of all future EU initiatives, to preserve European sovereignty in the current crisis context. We need more action to reduce the knock-on effects of dependency on non-European card schemes, in order to preserve the independence of our foreign policy decisions and of our ability to finance economic recovery.

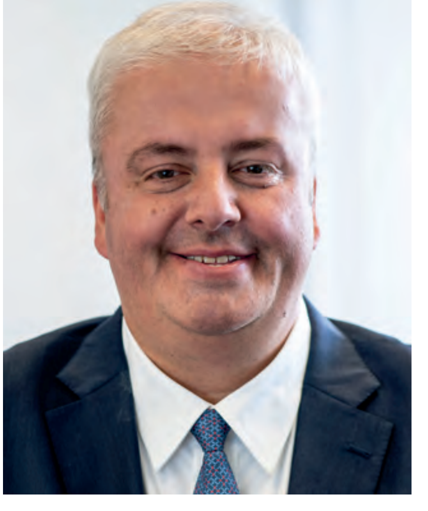
Similarly, the emergence of new actors, including BigTechs, in the payment and currency areas begs the question of the powers for European regulators to control the impact of these new ventures on the European economy, as we grow more reliant on access to digital services in our day-to-day lives.

The European Renaissance will require pan-European payment systems bringing innovative solutions for consumers and businesses. These new infrastructures and services will ensure that Europe remains autonomous in the wake of post-COVID recovery and with the disruption of economic models that digital innovation creates. ●

Burkhard Balz

Member of the Executive Board,
Deutsche Bundesbank

Forming a competitive European payments market that benefits society at large



Cashless payments are becoming ever more common place. In the EU, around 140 billion non-cash transactions were processed in 2018, up 8.8% on the year. Market intelligence is projecting further annual expansion rates of 8.5% up until 2022 and expecting associated revenues to grow by around 6% p.a. through to 2028.The bulk of global revenues is generated by card payments, which currently account for 62%.

However, incumbent banks appear to be capturing less of the revenue growth than their rivals. The last few years have seen digital banking and smartphone banks burst onto the scene and global technology firms, BigTechs, make inroads into the payments and banking space. These firms can leverage their platforms and capitalise on extensive network, scale and scope effects to enhance their market power. Considerable changes in user preferences are fuelling this development.

> *Now it's time to make a pan-European payment solution a reality.*

While consumers undoubtedly value the convenience of global platforms, there are some challenges for European societies as a whole. Platform economies tend to favour monopolies, so as BigTechs gain ever greater shares of the payments and banking business, the contestability and competitiveness of European markets will diminish.

Furthermore, banks face the risk of being disintermediated by platform solutions as they lose their direct links with their customers. Consequently, they might end up as mere commodity suppliers of back-end banking infrastructure and regulatory compliance on behalf of digital solutions.

So their margins and revenues are at stake. In addition, European providers usually manage payments and other banking segments as a profit centre activity. That means putting a price tag on account-providing and payment services. For most platform models, though, it's the data analytics that tend to be monetised. Given the above-mentioned monopolistic tendencies, consumers should continue to be able to choose whether they wish to depend on data-driven models or accept a fair price for using services that ▶

▶ minimise the collection and use of their data.

Against this backdrop, European authorities are calling for a compelling pan-European payment solution that addresses these challenges. National central banks on the continent have responded by defining five key objectives that this solution would need to satisfy: 1) pan-European reach and uniform customer experience; 2) convenience and cost efficiency; 3) safety and security; 4) European identity and governance; and 5) global acceptance in the long term.

Now it's time for European market players to make this solution a reality. A number of building blocks, like instant payments and the necessary infrastructure, are already being rolled out. Others, such as standardised request-to-pay and confirmation messaging, as well as common security mechanisms, are still lacking. Moreover, European providers need assurance that payments can remain an attractive business. Also, it is crucial for them to have a level playing field with their new rivals, like in terms of having reasonable access to technical interfaces such as NFC. Ultimately, though, the industry will need to forge a compelling solution for all the different payment situations – one that will be to the taste of European consumers. Otherwise, consumers might ultimately turn away. ●

Carlos Carriedo

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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.

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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. ●

Roeland Van der Stappen

Head of Regulatory Affairs,
Europe, Visa Europe

European retail payments at a crossroads

We are at crossroads in the payment and banking sector, driven together on one side by innovators and disruptors in the FinTech world and governments and regulators who see an opportunity to put the consumer in control of their money and financial data.

Open finance is where they converge, all centered on putting consumers in control of their money and their financial data. This opens the banking market to new players, services and possibilities while giving consumers more choice than ever imagined.

Europe is at the leading edge of that change. European regulation, such as the revised Payment Services Directive (PSD2), through a focus on open access and standard-setting, has paved the way for open finance to flourish and created new opportunities for innovations that consumers need and want to adopt.

Importantly, the design of the PSD2 regulation has enabled businesses to innovate in an unfettered and consistent way across the single market. It has allowed consumers to benefit from the best of what the world has to offer, and empowered consumers to make that choice for themselves.

In a world that is moving fast and digital, Europeans continue to have high expectations for security, reliability, control and protection. They want choice and simplicity as they manage their financial lives.

When we think about the future of payments, we should stay grounded in consumers' expressed needs and on enabling choice to maintain a level playing field and continued innovation, without prescribing operational solutions and technology.

There are also inherent trade-offs if infrastructure is local or regionalized rather than global. International payment networks offer some of the highest levels of cyber –and operational resilience.

The ability to route data through multiple data center around the world, with instant fail-over capabilities, contribute to best-in-class operational resilience. At the same time, access to global data for cyber threat analysis allows for the detection of fraud/scams outside of Europe in order to react faster to threats to European citizens.

> *When we think about the future of payments, we should stay grounded in consumers' expressed needs and on enabling choice to maintain a level playing field and continued innovation, without prescribing operational solutions and technology.*

If Europe wants to stay ahead in payment innovation and encourage the emergence of FinTech players, it is better to promote innovation and set common and open standards that facilitate change, rather than build new European-only infrastructure.

This approach would support operational and cyber resilience, while expanding the opportunities for competition, growth and innovation – which drives the best results for consumers. This will be ever more important as we move towards open finance. ●

Mikael Svensson

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Mastercard Europe

Increasing competition in the European payments market

Over the past years, the European retail payments market has gone through significant transformation. Thanks to technological innovations, consumers and merchants now have a wide range of payment methods they can choose from. The change in consumer habits, in particular the growth in cross-border and online commerce, has changed the dynamics of payments and how they enable new and different shopping experiences that benefit the consumer and the retailer.

In addition to these consumer- and technology-driven developments, Europe has been at the forefront of regulation to boost electronic payments, reduce end-users' costs, prevent fraud and disable barriers for new players entering the market. The EU Interchange Fee Regulation and 2nd Payment ▶

Services Directive (PSD2), which are inherently linked, are still having a huge impact on the market and the full effects are yet to be seen. Indeed, Europe is the region with the lowest payment acceptance costs in the world and the PSD2 continues to drive further competition in the European payments market. As the PSD2 opens the payments market to new entrants, it also leads to greater choice for consumers and businesses by enabling them to use third-party providers to manage their finances and initiate payments on their behalf.

Even if most in-store transactions in Europe are still conducted with cash, the increased competition has resulted in consumers having access to multiple payment methods including cards, cash, mobile phone payments, payments through wearables, such as watches or wristbands, voice-enabled devices or other new payment methods that use (often instant) credit transfers directly from their bank accounts. With the increased use of smartphones and apps, further growth of innovative payment methods is expected.

> *Legal certainty is paramount for new and existing players to develop innovative solutions that meet consumers' and businesses' needs.*

New alternatives also mean that consumers and retailers use multiple payment methods depending on the situation they are in. This leads to payment service providers increasingly competing for consumers to use their payment solution at the point of sale, in store, or online. Innovation, convenience and safety are fundamental in this.

As the effects of existing regulation are further unfolding, one can expect these trends to continue. Also, digital wallets are expected to be used more broadly by consumers. Instant payments, often enabled by third parties, QR codes or Near Field Communication (NFC) will also offer new alternatives. These trends mean that the market for retail payments is likely to continue to deliver good outcomes in terms of efficiency, innovation and choice in the future, provided that the right regulatory framework is in place.

Legal certainty is paramount for new and existing players to develop innovative solutions that meet consumers' and businesses' needs. Further legislation should therefore only be considered once the full effects of existing rules and regulation are known and a need for further regulation has been identified. This is the best way that innovation and competition continue to flourish in this sector across Europe.

Dr. Joachim Schmalzl

Executive Member of the Board, Deutscher Sparkassen- und Giroverband (DSGV)

Payments in Europe - set the course now!

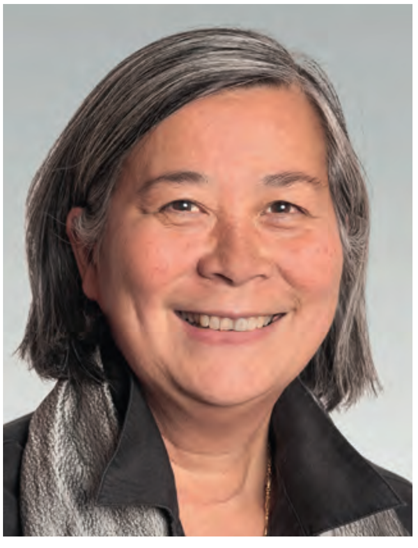
The increasing momentum in the payment transactions sector has accelerated significantly in recent months. But what are the drivers that have caused payments - an area which might previously have been considered boring - to reach the attention of decision-makers in the banking industry? The answer to this is complex: the rapid technical development seen over the last few years has been a global driver, enabling an increasing number of new services in this area and leading to dramatic changes in existing payment offers and the processes behind them.

Closely linked to this are the entirely new customer requirements and the resultant offers in the area of payments and additional payment services, for example in the area of data usage. Whereas payment business was previously the domain of banks or bank-related service providers, there are now a large number of providers in the market which are outside the banking sphere and which just a few years ago played only a minor role. These not only damage the banks' position as payment service providers, but also their important role as account managers, because third-party providers will foreseeably expand their services, which are currently still based on payments, to other lucrative business areas. This gives the subject a completely different, existential dimension in addition to the purely financial consideration: the anxious question that arises for the banks is whether they will continue to be the account-holding entity for customers in future, and thus the first port of call for financial services, or whether they will be displaced to a secondary role.

> *The German Savings Banks Finance Group wishes to play an active role in shaping European payment transactions.*

How should European banks respond to this development? Certainly not with "business as usual" as this is sure to lead very predictably and quickly to the situation described above. Despite the recent political and economic challenges, Europe is a strong continent - if it acts in a concerted, consistent and focused manner. And this is particularly true for the payments sector. Why not join forces and put all our weight behind this? With almost 513 million inhabitants, around 697.5 million current accounts and more than 112 billion payment transactions annually, the European Union has the potential to shape the European payments market with a focus on European requirements and to offer customers modern and exciting payment services. The Savings Banks Finance Group has already completed valuable preliminary work in this area. For example, instant payments were implemented very early and consistently in the Group, currently enabling around 10 million transactions (incoming and outgoing payments, as at the beginning of April) to be processed each month. In addition to this, a highly customer-oriented P2P process has been developed on the basis of instant payments to serve as the basis for further expansion stages, e.g. for P2B transactions. A further focus of activities is the provision and expansion of convenient smartphone-based POS payment solutions, whether based on credit cards or on the German debit card payment scheme girocard.

The German Savings Banks Finance Group, as the market leader for payments in Germany, wishes to play an active role in shaping European payment transactions and is therefore intensively involved in the work of the European Payments Initiative (EPI). The aim must be to create uniform payment scheme throughout Europe with the potential for innovation in all customer-relevant use cases, based on sustainable business models. This is the only way to create a successful counter-model to internationally operating and financially strong players. ●



Narinda You

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Emerging payment means a myth or a reality?

Payments are and will be executed through payment accounts. These accounts were a bank monopoly but with PSD2 some new players appeared on the market under the status of Payment institutions.

These new Payment service providers are still relying on bank payment means but they could develop a certain kind of intermediation with the growth of e-money transactions in market places organised by large merchants for instance.

Banks should pay attention to this evolution because it could weaken their intermediation role and limit them to mere payment account handling considered more as a commodity than real services.

The customers be they on payee or payer side believe that their payment services are secured by their banks. They do not always realise that when using new "payment solutions" they are not in the same trust environment.

Banks have invested for decades to protect their customer data and to secure their processes.

They are under scrutiny of multiple authorities and overseers. They have the ability to monitor and report whilst it is not always the case of new players.

As the reputation and financial risks will be borne by banks they have to understand these new ecosystems, the user experience, the easiness and the immediacy that seem to become the new normal.

They also will have to examine very carefully their new clients needs: to activate/de-activate, to increase/decrease the payments amounts authorised, temporarily/permanently, specific counterparts or not, etc. It is then our responsibility to allow them to do so in the limits of our risk analysis and appetite.

On the merchant side, it is crucial for banks to be able to provide information with the right level of protection and security to allow them to develop their business and mitigate their fraud rate.

The mean of payment is not important per se. What will make the difference is whether one or the other offers more easiness and benefits to both payer and payee.

It is important too to be able to rely on sustainable providers offering security and availability.

It is the ambition of 20 large banks in Europe to deliver such an end-to-end pan-European payment solution that would bundle a card (plastic) and a wallet (digital card or payment account based) relying on an interbank settlement through SCT Inst which is a genuine European scheme. The key factors of success reside in the attractiveness of the solution, the speed of adoption and deployment.

> *The crisis we experience today should intensify the work because this project could be a strategic move in the European payment policy.*

It is crucial to maintain the momentum of the EPI Project (European Payment Initiative) that necessitated nearly one year of discussions among banks but also with the other stakeholders such as the international card schemes, the non-bank acquirers and some processors and manufacturers … and of course the regulators at national and European level.

The crisis we experience today should not slow down but, on the contrary, intensify the work because this project becomes more relevant than ever and could be a strategic move in the European payment policy. ●