# Does the EU need to build its own payment system?


## Denis Beau

First Deputy Governor,
Banque de France


### The future of European payments is being built now

Over the past decade, regulatory developments promoting competition between payment service providers have combined with strong impetus from technological innovation to redraw the payments landscape. Consequently, new participants are arriving on the scene, innovative technologies are spreading, and more payment services are becoming available.

By accelerating the digitization of economies, the COVID19 pandemic has amplified these trends in multiple ways. More and more consumers are turning to cashless payments, namely by using debit or credit cards but also smartphones, even at bakeries.

Against this background, and alongside its monetary policy and financial stability functions, the Eurosystem is also tasked with keeping means of payment efficient and safe in the euro area, while making sure innovative and user-friendly solutions are available. Today however, the majority of card, mobile and online payments made by European citizens and companies relies on technology platforms operated by global providers and international card schemes. The ongoing changes in payment behaviour stemming from digitalisation will further amplify this development, resulting in numerous challenges for public authorities and central banks.

With the pandemic, it becomes more obvious that the EU needs to safeguard the uninterrupted functioning of essential financial market infrastructures – such as payment systems – and the continuous supply of crucial services.

The predominant reliance on non-European payment service providers could threaten European sovereignty on that matter. Moreover, BigTechs are continuously gaining market shares and become increasingly dominant by offering a comprehensive range of financial services to a global customer base. As a result, consumers have more limited alternatives and might end up tied to proprietary solutions. Meanwhile, banks face the risk of being disintermediated by losing their direct links to their own customers.

Consequently, sixteen major European banks have recently put forward the European Payment Initiative (EPI). This project could first enable consumers to pay in a uniform, convenient, safe and efficient manner throughout the whole Europe, comprising all different online and offline channels.

In a second stage, consumers could use it globally as well, thus reducing their reliance on non-European payment service actors. Such a reorganisation of the European payments landscape undoubtedly will require significant investments, whereas resources are becoming scarce. Nonetheless, this initiative may rely on existing infrastructures such as domestic card schemes and digital solutions, which already serve a broad range of users and enjoy significant market shares despite their limited national reach. Besides, instant payments should form an integral part of this future set-up. EPI could be a nucleus to pool European interests and to regain autonomy, while being open to other remaining players from national markets.

For a successful implementation, all significant stakeholders from the supply side as well as both payers and payees need to join in. In addition, European authorities and central banks are willing to support this promising initiative within the reach of their mandates, including by ensuring a sufficient degree of regulatory predictability.

> *The current juncture is a unique opportunity to build an integrated European payments market.*

Another important concern for European sovereignty is the control over individual payment data, which are the cornerstone of successful business models in the field of financial services. The recent decision of the Court of Justice of the European Union on the Privacy Shield illustrates that there has been a growing understanding of this issue in the past few years.

However, all European stakeholders – whether consumers, market players or public authorities – face the risk of not being able to maintain proper control on such data, because the latter are usually processed on servers located outside of the EU. As a mitigation measure, the existing regulatory framework – mostly defined by the GDPR – could be completed by introducing a location policy for sensitive payment information.

The current juncture is a unique opportunity to build an integrated European payments market. Let us make the best use of this momentum. ●

# Martin Merlin

Director, Banks Insurance and Financial Crime, DG for Financial Stability, Financial Services and Capital Markets Union, European Commission

## A retail payments strategy for the EU

Digitalisation and the emergence of new technologies has transformed the payments landscape over the years, more recently bringing innovative players and services to the market. Over the last decade, EU legislation on retail payments has facilitated this trend and paved the way for an increasingly competitive market.

However, European consumers and companies are not fully benefitting from this transformation, as faster, more innovative payment solutions remain largely domestic or are not yet available or accessible on a large and European scale. Whilst the second Payment Services Directive has enabled innovative solutions such as payments initiation services or account information services, open banking is still in its infancy. Despite progress achieved under the Single Euro Payments Area, the European retail payments market remains fragmented, with no European solution emerging for point-of-sale and online payments, and the potential of instant payments remains largely untapped. On the other hand, global tech companies play an increasing role on the European payments scene, thanks in particular to their huge client-base, and vast access to data. However, they bring a set of new challenges, in particular in terms of data privacy, security, consumer protection, economic and financial autonomy and even potentially monetary sovereignty.

The digitalisation process and the emergence of innovative players and FinTechs is also contributing to a more diversified offer for cross-border payments between the EU and other jurisdictions, in a global context where cross-border payments are generally more complex, slow, opaque, inconvenient and costly than domestic ones. However, many challenges remain. One of those challenges is data protection, in particular owing to the different levels of protection offered by national regimes. In this regard, a recent CJEU ruling[1] determines that, in order for apayment service provider (as the controller) to transfer data to a third country, it will have to be satisfied that the requirements of a third country's domestic laws are essentially equivalent to those required under EU law, and do not result in limitations to the right of protection of personal data. As this requirement could apply to any data transfer outside EEA borders, even when transactions are carried-out in Europe, it could have a tangible impact on the EU market. Taking into account the potential risks involved in the transfer of data outside Europe, it is crucial that the EU retail payments market becomes less dependent on the processing of data for payment purposes outside of EU borders.

*As digital payments are key for the EU's digital economy, a Retail Payments Strategy is needed.*

In recent years, Europe has made important progress towards a true banking union and has launched an ambitious agenda for creating a Capital Markets Union; it needs now to have the same level of ambition for the retail payments market.

As payments are vital to the economy and digital payments are crucial for the digital transformation in Europe, their strategic importance justifies the need to adopt a Retail Payments Strategy. ●

1. Schrems II (Case C-311/18 - Data Protection Commissioner v Facebook Ireland Ltd and Maximillian Schrems)

# Dr. Joachim Schmalzl

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

## The future of payments in Europe

Today's European payment landscape is highly fragmented. Payment solutions are developed around national ecosystems with little or no acceptance across other European markets. This domestic-first approach to payments and the absence of a pan-European solution able to compete with global payment solution providers for the European market, has left the floor to an oligopoly of Big Techs and international payments service provides. Additionally, while some European countries have developed domestic payment systems (e.g. girocard in Germany), others rely on international card systems (ICS) for their national, European and international transactions.

With the uptick in the usage of digital payment methods resulting from ▶

the ongoing COVID-19 crisis, the existing dominant market players are in a favorable position to further strengthen their position across Europe. In addition, the current market situation also provides challenges through limiting competition in the payments space. Importantly, European cross-border retail payments are currently only feasible through ICS, leaving many European consumers and merchants with no viable alternatives for domestic or cross border transactions across Europe. As a negative consequence of this constellation and the resulting limited competition, international service providers have been able to increase their fees unilaterally and significantly without risking their market position.

It is important to note that Payments constitute a primary element of the customer's day-to-day banking experience, without which, the whole banking relationship and the valuable data associated with it would no longer be in the hands of the customer's bank. Questions around custodianship of customer data have been in the focus for some time now. New regulations (such as PSD2) meant to accelerate innovation by allowing third parties access to customer information have further allowed the Big Tech companies to successfully penetrate the payments landscape by offering a more streamlined user experience while adding a disintermediation layer between banks and their customers.

*The current European payment landscape provides for limited competition at the European level and presents challenges to the long-term prospects of the European payments and banking industries.*

In conclusion, the current European payment landscape provides for limited competition at the European level and presents challenges to the long-term prospects of the European payments and banking industries. As a result, Europe is in need of a pan-European payment solution, able to compete with global Big Tech and International Card Schemes while providing tangible benefits to the European market by offering a seamless, competitive, and unified payment solution for the whole of Europe and available to all European consumers. In order to address these challenges, the German Savings Banks (Sparkassen-Finanzgruppe) together with a group of European banks from five EU countries (Belgium, France, Germany, Spain, and the Netherlands) announced their participation in the European Payments Initiative (EPI).

The initiative aims to replace the fragmented domestic solutions of participating European countries with pan-European payment solutions (including in-store, online, cash withdrawal and P2P) available to consumers and merchants across Europe. EPI aims to provide a new means for payments to European consumers and merchants in all types of transactions.

## Regis Folbaum

Head of Payments & Data,
La Banque Postale

### Moving towards a European card system

OFAC, Tik-Tok, Alibaba, WeChat Pay, Libra... What do these 5 have in common? They are some of the symbols that reveal the lack of sovereignty in Europe in general and in payments in particular, an issue that we need to tackle rather sooner than later.

20 years after the creation of the euro, more than 10 years after the implementation of SEPA (Single Euro Payments Area), payments have become a strategic challenge for Europe and are now construed as a true component of its economic sovereignty. Yet, the Europe of payments is still ahead of us. Due to the fragmentation of national card schemes, even the strongest European operators offer services that only work within individual member states. While we witness the rise of US, China and even-BigTech-led payment schemes, EU still lags behind and does not have a unified European card scheme. Cryptocurrencies and stablecoins cannot be the only solution for retail and cross-border European payments.

A SEPA for cards is now critical and implies that we go beyond connectivity and interoperability barriers to set common standards. Cards, still the most used electronic payment, account for around 52% of all non-cash transactions in the EU. Consumers embrace its benefits in terms of convenience, speed, safety and security. The fast-changing realm of instant payments, disrupted by new technology companies may offer an opportunity to achieve a single space for European cards, which ultimately would benefit both cardholders and merchants.

*Now that EPI is open for business, founding members welcome the joining of new banks / PSPs to build a Europe's unified and innovative payment system...*

The European payments market is already dominated by non-European players, and we must also take in account the growing role of non-European digital companies - whether American or Chinese - offering payment solutions. This raises a sovereignty issue not only for payment infrastructures but also for the conservation, use and confidentiality of citizens' data.

▶ Last but not least, there is also a strong demand from merchants, who want to do away with barriers, solutions and local standards. A single EU standard could meet these expectations while lowering prices for merchants. Now, with EPI as an end to end payments solution that will cover all major retail use cases in Europe and compete with best-in-class solutions, we will have a truly European and competitive alternative. This private-led solution, involving strongly regulated actors (among which La Banque Postale) and leveraging SCT Inst, will allow a progressive advance towards a unified European payment system.

The set-up of EPI lies on three key factors:

- the stability of the cards' business model and a viable business model for the SCT Inst-based transactions given the significant investments required for the build, the migration to and the run of a new infrastructure;
- a stabilized regulatory environment; and
- a momentum of other communities willing to join EPI.

All of the above imply continuous support of public authorities, especially the European Commission, the European Central Bank and National Central Banks. Now that EPI is open for business, the founding members welcome the joining of new banks or PSPs to build this challenging but exciting adventure to provide Europe and its citizens with a unified and innovative payment system.

La Banque Postale, as a major player with a large retail customers base, strongly supports this pan-European initiative. ●

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# Stéphanie Yon-Courtin

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


## From castles to citadels: building the EU retail payment system

The past decade has seen radical changes in the EU retail payment landscape, with new entrants fostering competition, and consumers empowered to start a dialogue with payment providers on the services they need and the charges they pay. Still impregnable castles could soon be replaced with a diverse landscape of citadels, with the potential to strengthen our sovereignty in building a strong network of payment services in Europe, for European consumers, respecting European rules.

Once seen as a siege against incumbent payment providers, the introduction of more open competition in the retail payment space with the second Payment Services Directive (PSD2) could set useful precedents for open finance, and beyond financial services in the upcoming Digital Services Act. Further opening of the retail payment markets will be the logical next step, provided that reciprocal access to financial data ensures a level playing field across providers, based on the 'same business, same rules' principle. We must act to prevent BigTechs from becoming the new seigneurs imposing their laws on EU citizens.

Access to worldwide services, such as card schemes, is largely in the hands of global, non-European actors, with questionable consequences on Europe's sovereignty, in particular on the independence of our foreign policy decisions. The use of ad-hoc services for consumer-to-consumer transfers or currency conversion, offered through mobile apps by innovative actors, often European, is still very dependent on word of mouth and therefore linked to national, regional and even local preferences.

A truly European approach to retail payments will bridge these apparent contradictions, and allow us to move from a small number of fiefdoms to a network of citadels anchored in Europe, with a strong influence on the global payment landscape.

The end of the Wirecard sandcastle shows that we should not be complacent in building European payment providers. Pan-European sandboxes will be useful to foster innovative and competitive European leaders in retail payment, if and only if all relevant supervisors are involved under the joint steer of the ESAs, and with sufficient safeguards to prevent potential threats to financial stability, and to market integrity, transparency and efficiency.

*As we are watching the house of Wirecard fall, a new supervision for EU payments is an urgent need.*

As we are watching the house of Wirecard fall, a new supervision for EU payments is an urgent need, ensuring that dots are connected across all related areas including financial reporting, financial innovation, audit, Anti-Money Laundering and Countering Terrorism Financing.

Adequate governance of this new kind of European cooperation will be key: supervisory authorities should be confident in sharing sensitive information and in challenging each other, and by independent voices empowered to protect the interests of European payment users as a whole, away from national sensitivities.

Much like Medieval Italian and German communes have created the foundations for the vibrant European economy of the following centuries, we now need to build a European network of payments providers, acting as together citadels to challenge the stronghold of the few global castles constraining the current EU retail payment landscape. ●

## Burkhard Balz

Member of the Executive Board,
Deutsche Bundesbank

### Payment rails as an essential European infrastructure

Digitalisation has changed payments profoundly. Since the beginning of the 2000s, online payment situations have become increasingly widespread, inflating the need for card, online and mobile-based cashless payment services. The COVID-19 pandemic has accelerated this trend even further, with cashless payment services in demand for both the increasing volume of e-commerce and even in face-to-face transactions.

This ongoing digitalisation is characterised by platform ecosystems dividing up the markets for physical goods and services between themselves. Payments are to be integrated into these platforms as an additional element, yet one that does not attract too much user attention as it should not interrupt the customer journey. The most successful platform ecosystems are offered by BigTechs from the United States and China. From their point of view, a seamless integration of payments is crucial, but it is only a complement to their core business.

This distinguishes them from traditional payment service providers, such as banks. For banks, payments are part of their core services for which they expect to be paid, at least by the payee. In BigTech ecosystems, the business model is very often based on the usage of big data. Therefore, they strive for perfect integration of payments into their platform ecosystem and start to develop their own payment services.

In this changing environment, the offerings of payment service providers in the euro area are in danger of falling short of the needs of payers and payees. This is not only due to their purely fee-based structure, but also due to the often limited reach of online services on a national scale. Against this background, regulators and central banks in the EU are endeavouring to support payment service providers in developing a system for cashless payments that works online as well as face to face. It should run on European payment rails. One new European payment scheme that can be used as a proper rail-like basis is the SEPA Instant Payment scheme.

In this context, it is quite challenging for an individual market player, such as a bank, to develop long-lasting business models. This is because payment services are a network product that traditionally works as a cooperative service provided by a group of suppliers taking into account the interests of both sides of demand: the payer and the payee. With ongoing digitalisation, the market model – with payers, payees and payment service providers as separate institutions – is supposed to be of minor importance. The trend towards platform-type offerings of goods and services has induced a need for large-scale services which fit into these kinds of eco-system.

> *It is also up to the private sector to have an understanding of the need to invest in the LT development of European payment solutions based on EU infrastructure.*

To manage this big challenge in time, it is up to the regulator to set an adequate legal framework to enable payment service providers in Europe to build up European-based payment services on European-based rails. It is up to the private sector to pick-up these patterns. It is also up to the private sector to have an understanding of the need to invest in the long-term development of European payment solutions based on European infrastructure. Otherwise, the payment industry – with its underlying infrastructures – may no longer be a field for European players. ●