NEW EU RETAIL PAYMENT ERA

MADIS MÜLLER

Governor,
National Bank of Estonia
(Eesti Pank)

Instant payments are the future

Today's digitalised world offers numerous new ways to make payments faster, smarter and safer, but at the same time it poses regulatory and technical challenges that we have not had to face before. With that in mind, I would like to highlight three areas where we should focus our attention, and these are the uptake of instant payments, European independence from Big Tech and the global card schemes, and the digital euro.

Instant payments are indisputably a game changer for the payments industry. They provide a building block that the industry can use for building new and more efficient payment solutions in e-commerce, at physical points of sale, or in transactions between individuals. They have enabled solutions like proxy payments and request-to-pay payments that make initiating or requesting payments as easy as everyday messaging on smartphones. This broadly meets the expectations of market participants, but getting the best results from it will need all the euro area countries and their market participants to work together to overcome the two remaining challenges of

- achieving full reachability of instant payments by all payment service providers, and
- making instant payments the new normal for end users and not a premium service.

Overcoming these challenges will take some time, as the transition to instant payments is being made on a voluntary basis. But do we really need legislation that makes instant payments mandatory to make us see the advantages and opportunities they offer? In Estonia, 68 percent of all domestic interbank payments are already made instantly. The question now is whether we should maintain a slower system and the instant payments system in parallel or rather aim for a full upgrade to only one system. Maintaining a single system will surely end up being more efficient, while also offering additional benefits such as a smaller carbon footprint.

Instant payments are indisputably a game changer for the payments industry.

Secondly, we should aim to have more European solutions in our payments market. Card schemes with roots beyond the borders of the European Union hold a monopoly position today, while Big Tech companies are developing solutions that will increasingly strengthen their position in the EU. In response the European Commission and the European Central Bank have come up with their Retail Payment Strategies and the European Payment Initiative (EPI) to work on an EU card scheme solution and broader payment solutions. It is great to see the public sector working together with the private sector, but these are only the first steps and bigger challenges still lie ahead. The eIDAS regulation (The Regulation on electronic identification and trust services) has been revised to promote opportunities for the payments industry, the EPI solution needs to be launched and more widely adopted, and the Payment Service Directive 3 needs to make further progress.

Thirdly, we should always remain open-minded when we look to the future. Today the payments market is already having to deal with crypto assets, programmable or smart money, and the blockchain technology underlying them, and I am certain it will increasingly have to do so in the years ahead. This new technology has been proven to have a lot of potential, as it is highly scalable, faster and secure, and it can be used in many business areas to fuel the digital token economy. The proof can be seen in the private sector, which is developing new solutions like DIEM that are based on blockchain technology. The market capitalisation of crypto assets has already passed 1.3 trillion euros.

This is also one reason why central banks around the world are looking into this kind of technology and analysing and piloting Central Bank Digital Currencies (CBDC). The Eurosystem's digital euro project launched in mid-July is embarking on an investigation phase to identify how best to support the changing payments environment and market needs. It is also significant that the European Commission has made the first steps with the Markets in Crypto-assets Directive and the 5th Anti-Money Laundering Directive in order to protect end users and regulate the crypto assets market.

I welcome these challenges as they hold within them the potential for further improvements in our everyday lives.

ULRICH BINDSEIL

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

What are the main challenges facing the European retail payment system?

Digitalisation has paved the way for an array new products and services. For instance, the way we pay is changing, albeit at a slower pace than many other digital developments. This means electronic retail payments are transforming from basic payment services, traditionally provided by domestic banks, to commercialised, global payment solutions.

The coronavirus (COVID-19) pandemic has further accelerated a rise in the use of digital payments that had already been gathering pace in recent years. Payment cards have profited the most from this trend, in particular those attached to international payment schemes. Not only are payment cards widely used at the point of sale, they are also used for back-end processing of most e-commerce payment transactions – for example, when a person pays for something online. At the front end, solutions are increasingly provided by a number of global technology firms – often referred to as "big techs".

To increase choice, resilience and competitiveness, European payments service providers must step up their activities and develop pan-European, innovative payment solutions and technologies. With this in mind, the Eurosystem is promoting a retail payments strategy that prioritises (i) developing a pan-European payment solution for the point of interaction (POI), (ii) helping to fully deploy instant payments and (iii) improving payments that cross borders between EU and non-EU countries. The Eurosystem's strategy is consistent with ongoing efforts to look into using a digital euro for retail payments.

On the development of a European payment solution at POI, the Eurosystem welcomed the launch of the European Payments Initiative (EPI).[1] The EPI aims to develop a payment solution for people and businesses across Europe, including a payment card and digital wallet. EPI objectives meet Eurosystem criteria of pan-European reach and customer experience, convenience and cost efficiency, safety and efficiency, European brand and governance, and global acceptance as a longer-term goal. Other market initiatives are welcome, if they also meet these requirements.

The Eurosystem is promoting a retail payments strategy.

In terms of full deployment of instant payments, people increasingly expect to be able to make instant payments in any situation. They also expect instant payment services to be affordable and transparent. More European payment institutions need to adhere to the instant payment scheme established by the European Payments Council. Full pan-European reach needs to be guaranteed.

The Eurosystem has taken steps to ensure the pan-European reach of instant payments by the end of 2021, using the TARGET Instant Payment Settlement service (TIPS). From the private sector, the Eurosystem would like to see providers push beyond mere scheme adherence, by making instant payments available on all commonly used electronic channels – including at shop checkouts – and offering additional pan-European functionalities such as Request-to-Pay.

Although the Eurosystem's major focus is on payments within Europe, digitalisation should also make payments that cross between EU and non-EU countries more affordable, easier and faster. The Eurosystem contributes to international work on cross-border payments, such as the G20 roadmap[2]. On the operational level, the European Central Bank and Sveriges Riksbank are exploring how TIPS could support cross-currency instant payment transactions.[3]

The advance of digitalisation in the payments sector has also triggered research on possible scenarios that could induce central banks to issue a digital currency. Following its report on a digital euro[4], published for public consultation in 2020, the Eurosystem launched a digital euro investigation phase.[5] It will last 24 months and aims to address functional design, use cases, legal considerations and market impact. A digital euro must meet the needs of Europeans while helping to prevent illicit activities and avoiding any undesirable impact on financial stability and monetary policy. The investigation will not prejudge any future decision on the possible issuance of a digital euro for retail payments. Regardless of the outcome, a digital euro does not imply that cash would be abolished. Cash will remain available to anyone who wants to use it.

[1] European Central Bank (ECB), "ECB welcomes initiative to launch new European payment solution", press release, July 2020.

[2] Financial Stability Board, "Enhancing Cross-border Payments: Stage 3 roadmap", FSB, October 2020.

[3] ECB, "ECB to explore cross-currency instant payments", MIP News, ECB, October 2020.

[4] ECB, "Report on a digital euro", October 2020.

[5] ECB, "Eurosystem launches digital euro project", press release, July 2021.

BURKHARD BALZ

Member of the Executive Board, Deutsche Bundesbank

Reinventing payments: European infrastructure for citizens and businesses

Over the last decade, three different trends have transformed the payments infrastructure: European harmonisation, consolidation and digitalisation. European harmonisation impacted the base layer of payments, among other things, by standardising account-to-account transactions. Moreover, regulatory changes opened up the market for new payment services providers and were intended to enhance payments security. At the same time, the processing industry underwent substantial consolidation. This resulted in an enhanced scale and efficiency of operations.

Digitalisation became most visible at the customer interface. International technology titans started to offer convenient payment solutions built upon existing instruments. These are well-received by users but tend to exploit their data to raise platform value. Moreover, a number of competition authorities are now investigating whether bigtech players may be abusing their prominent market position. European providers are often too small and lacking resources to effectively compete. The coronavirus pandemic has fuelled digitalisation and further strengthened international platforms, while the relative use of cash – as a form of central bank money – has fallen in Europe.

In 2017, instant payments became a reality in Europe. They were introduced to foster direct account-to-account transactions. SEPAinst is harmonised across Europe and can be channelled through a consolidated, efficient infrastructure including the Eurosystem's TIPS. Based on this, European providers can build convenient, safe, data-conscious and efficient payment solutions. Instant payments as rails could be a powerful tool for eluding payers and payees alike, forming the foundation for renewed competition in the digital payment space. In addition, payment processes could be streamlined and therefore potentially better protected against cyber threats. In this sense, instant payments contribute to more safety in payments.

A digital euro would strengthen European autonomy and significantly enhance payments infrastructure.

Yet no European solution based on instant payments has emerged so far. However, the European Payment Initiative, EPI, could become a relevant competitor in this market. It would also meet the criteria laid out in the Eurosystem's retail payments strategy and thus contribute to its realisation. By the end of 2021, the banks and payment processors involved will decide whether the EPI solution will be rolled out. The Eurosystem and the European Commission would welcome such a decision.

On the back of payments digitalisation, including declining cash use, the rise of crypto tokens such as bitcoin or ether has marked a fundamental shift in how payments infrastructure could be organised. Before them, a central, trusted entity was needed to process transactions. With decentralised crypto tokens based on a ledger distributed across a large number of network participants, trust is created by the underlying algorithm. Proponents claim that intermediaries are becoming obsolete. But, crypto tokens in their current design do not sufficiently fulfil the functions of money: a means of payment, store of value and unit of account.

By contrast, private stable coins – such as the planned Diem – might be better positioned, as they are in principle backed by a fiat currency. Central banks and governments around the world are concerned that private stable coins could be rapidly adopted by a large number of users if linked to platform services. This could make effective monetary policy more difficult. Oversight activities need to encompass bigtechs operating worldwide, a challenge not to be underestimated. The financial system as we know it could be at stake.

In response, central banks around the world are analysing the option of issuing central bank digital currency. These are not necessarily based on distributed ledger technology but can also involve account-based solutions. Some are already in place, e.g. in the Bahamas. Most notably, the Chinese central bank has started to distribute e-yuan in pilot regions. In July 2021, the Eurosystem launched an investigation phase to explore different design options for a digital euro. These include data and privacy protection as far as possible. The digital euro would complement cash, not replace it. It should be delivered to payers and payees by regulated payment services providers. They are best positioned to build attractive user interfaces. In my view, the digital euro could be a European solution for retail payments if we succeed in involving banks and other private payment providers properly.

Later on, I can envisage a programmable digital euro that allows smart contracts. This could be linked to a European e-ID scheme to kick-off a digital ecosystem that allows its users fast, secure, seamless, efficient transactions with firms, merchants and government agencies alike. In sum, the digital euro would strengthen European autonomy and significantly enhance the European payments infrastructure, which will also support European citizens and businesses in better navigating digitalisation.

ONDŘEJ KOVAŘÍK

MEP, Committee on Economic and Monetary Affairs, European Parliament

Retail payments have rapidly developed digitally, EU rules must keep up

As the payments sphere has undergone a number of distinct changes in recent years, including the Covid pandemic, and had to adapt. The main challenge to be addressed by retail payment infrastructures going forward is to ensure their relevance. This should be done through ensuring they are modern, flexible, secure, swift and also adaptable to compete and cooperate on an international level.

There are a number of structural changes that we are seeing playing out to determine how best to serve the consumer, but also businesses, from small to large. These include emergence of new projects, such as the Diem or the concept of a central bank digital currency, which the ECB is currently studying, and also instant payment systems, which are speeding up payments to ensure that settlement is performed much more quickly than in the past. We are also seeing some jurisdictions cracking down on crypto-assets and digital currencies such as bitcoin, while other jurisdictions such as the EU try to find the right framing for markets of crypto-assets, which strikes the right balance between allowing for innovation, while reducing risks to consumers and the financial system as a whole.

In devising our new legislation to deal with the future of payments, we should keep in mind a key idea, which is that the same activity with the same risk should be subject to the same rules. The European Parliament has been committed to this approach since the adoption of our report on Digital Finance in 2020.

In practice this is more challenging than it appears, given the conflicting priorities in regulating technology as opposed to regulating financial services, which of course in the past were the main gateway to payments. Now, with technology companies becoming actively involved in the payments sphere, whether through Diem, the Apple Wallet or other such schemes, it's important that when it comes to retail payments, all are subject to the same rules, regardless of the market segment that company hails from.

...the same activity with the same risk should be subject to the same rules.

In the past year and a half, Covid has been an accelerator for the digitalisation of retail payments, with more online and app-based payments, as well as an increase in contactless payments. While these changes may have been somewhat predicted to occur, it would have happened at a slower pace had we not faced the pandemic. Therefore, we also need to ensure that the modernisation of our rules match the pace of the acceleration of digitalisation of payments.

Some problems that we face in Europe include a lack of EU level coordination when it comes to cross-border payments, with different national systems creating hurdles for banks, for example, to jump over. It's therefore important that in the new era of retail payments, there is harmonisation of payments legislation on the EU level. It's positive, and indeed necessary, that the Commission will look at how PSD II has been implemented and whether we will need to make some changes to the legislation. This applies to the front-facing aspect of retail payments as well as the back-end infrastructure.

While the digitalisation of payments has sought to ensure that the consumer is satisfied with services available, the data concerning consumers' transactions is becoming a more valuable and quantifiable commodity to banks, payment service providers and fintechs. In the technology field itself, consumer data and behaviour has become ever more highly valued.

It's important in this respect that the right balance is struck as regards the availability of large scale, anonymised data between those companies which have the big picture and those that may only have a partial picture of consumer behaviour.

In the EU, there is also the potential for better innovation and scale up. In the payments sector, we have some strong EU players, but a number have had to seek investment from elsewhere. We therefore need to ensure that in Europe there is the same prospects in terms of innovation potential, availability of investment and a single rulebook for payments across the EU.

Regarding data, we also have to consider that the EU has very strong personal data protection, while at the same time strong AML rules, which would need better coordination and enforcement. These, together with PSD II are key backbones of the retail payments landscape, and we need to ensure that they are fit for purpose as that landscape continues to evolve in the coming years, as they may have solved some older challenges, but new challenges are emerging from the combination of technology with the payments sphere.

As the legislation evolves to meet the challenges of the digital financial era, so must supervision and enforcement of the rules, with stronger co-operation on a national level, between the national and European level, and finally on the international level. The EU must work together with like-minded allies to ensure the financial infrastructure remains open and easy to use for our consumers.

CHARLOTTE HOGG

Executive Vice President and Chief Executive Officer, Visa Europe

The future of payments is open

Innovation in payments is accelerating to meet changing needs. This is exciting, and it also requires the private and public sectors to ensure that these developments are inclusive, sustainable, and maintain trust and financial stability.

Payments innovation follows the lead of commerce. For payments to be "one size fits all," commerce would have to follow a set pattern—we know it does not. When one considers the innovations in retail, in-app, person-to-person, and government-to-citizen payment flows over the past five years, it becomes clear that change is the only constant. The COVID-19 pandemic accelerated that change.

Central banks and policymakers should promote a diverse and open payment landscape where all players commit to security and resilience, and where consumers and merchants can choose the most suitable payment method depending on their needs.

This brings us to some areas where the public and private sectors can and should work together to improve outcomes for European consumers and businesses.

Instant payments need to be part of a diverse digital payments mix

The market for instant payments is advancing, driven by technological development, consumer and business demand, and support from policymakers. Instant payments are complementary to other payment types and bring unique features and value propositions. But instant payments would not be the preferred method for all use cases.

A diverse payments mix will be needed to allow for continued competition and innovation. Instant settlement is only one feature consumers may care about, and even then, many care more about instant funds availability. That said, instant payments may facilitate a variety of use cases people and businesses care about, and the overlay services, such as request to pay solutions, that they need to be attractive to end users will benefit from private sector innovation. The private sector has much to add in the way of security and fraud know-how as well—in real time payments, fraud can move quickly. If you are going to authorise or settle a transaction in milliseconds, you need to use all the tools and data you can to ensure consumers are protected.

Central banks and policymakers should promote a diverse and open payment landscape...

Open banking holds the potential to spur further innovation

By putting consumers at the heart of the financial ecosystem, open banking should encourage innovation, with more players entering the ecosystem, to create more tailored and relevant financial products and services. Above all, it holds the promise of equipping European consumers and businesses with tools to make their financial lives more simple, reliable and secure.

We recognize that increased data sharing can raise security and privacy concerns if implemented without proper safeguards. A comprehensive security approach is paramount to drive consumer trust in open banking and data sharing more broadly, while interoperability of underlying technical infrastructure, standards and APIs is key. As Visa, we believe that our capabilities in resilience, security and fraud prevention will contribute to the success and scaling up of open banking solutions in Europe.

Private sector involvement in retail CBDCs is essential for innovation and financial stability

We do believe strong support from the private sector is key for the success of a retail CBDC. The private sector is well-situated to help sort out the natural use-cases for instant payment and CBDCs, given its strong knowledge of consumer and business preferences and behaviours. Central banks should continue to focus on the foundational elements - security and certainty of acceptance - while intermediaries are best placed to deliver against these objectives and also to provide the best possible user experience.

CBDC design choices should favour openness and interoperability. We believe that retail CBDCs should be integrated into the existing payments ecosystem as this will, among other things, ensure customers are provided with integrated payments solutions and acceptance is widespread from initial introduction.

In a time of rapid change, the focus on innovation is often at the user experience level. However, innovation in resilience, network availability, fraud prevention and cyber security is just if not more important. We must therefore create the environment for further payment innovation, but never compromise on the security and resilience that makes this all possible and ensures that trust is maintained in the system.

JEAN DIACONO
Vice President and General Manager, Global Merchant Services Continental Europe, American Express

The (eternal) pursuit of the single market

Arguably one of Europe's biggest assets, the Single Market is key for generating sustained economic growth. It is one of the core reasons why overseas firms invest, how domestic firms can scale-up, and fundamental to Europe delivering greater choice and value to its citizens. When designing policy, it should be the Commission's 'North Star'.

This summer, the European Commission launched a revision to the 2008 Consumer Credit Directive. Quite rightly, one of the main objectives of this original legislation was to create a single market for credit. Unfortunately, this has not materialised, and there is a danger that the new proposals do not adequately address the current barriers to a true Single Market in credit. They could even inadvertently exacerbate them, further limiting the potential benefits for the European economy.

As digitalisation continues to drive innovation in payments, we must seize this opportunity to create better conditions for consumers, to allow for more competition, and more products to safely enter the market. A clear step towards creating a true Single Market would be to create a licencing regime that enables the passporting of credit by non-banks and other financial services providers. Lowering barriers for cross-border lending would introduce more choice as well as create the conditions for national fintech champions to emerge as genuine E.U.-based tech unicorns.

The EU should seize this regulatory momentum as an opportunity to build a Single Market for credit.

Equally important is that regulation should focus where there is clear consumer detriment, and allow greater flexibility for products that pose no-consumer risk. A 'one-size-fits-all' approach to regulation – by bringing all payment products into scope and the same regime – may ultimately leave consumers with fewer options, and with it, the potential to increase the cost of credit.

Particularly concerning is the Commission's proposal to introduce mandatory caps on interest rates. This would undermine one of the core principles of the Single Market, namely that of an open and competitive market. We have previously seen that the introduction of caps within the Payments sector has strengthened the position of a few dominant players, whilst diminishing competition and erecting barriers for new players in the market. The proposals go further, allowing 27 Member States individually to determine how a cap on interest should be calculated; this patchwork approach would throw-up significant administrative barriers to firms looking to operate across the EU, and undermine the harmonisation necessary to ensure efficiency.

Payments in the EU are at a critical turning point. EU regulation should protect consumer rights while fostering innovation and competition. The EU should seize this regulatory momentum as an opportunity to build a Single Market for credit that works for citizens and unlocks new avenues of growth for the European economy.

EUROFI PRESIDENT // David Wright
SECRETARY GENERAL & PUBLISHER // Didier Cahen
ASSOCIATE PUBLISHERS // Jean-Marie Andrès and Marc Truchet
EDITORIAL COORDINATORS // Virginie Denis and Daniela Craciun
GRAPHIC STUDIO // Initial Production - www.initialproduction.be