

Policy priorities in the payment area

1. Evolving payment landscapes: Combining innovation and consumer preferences

1.1 Decline of cash and rise of digital payments

A central bank official explained that the study on the payment attitudes of consumers in the euro area (SPACE) is a comprehensive research project, assessing consumer payment habits across the euro area since its inception in 2016. The first iteration of the study required three years to complete, followed by subsequent studies conducted every two years. The latest study, published in December 2024, is based on interviews with approximately 40,000 individuals, regarding their payment habits, including point-of-sale (POS) payments, e-commerce transactions and peer-to-peer (P2P) payment methods.

The share of cash payments at POS have decreased significantly, dropping from 79% in 2016 to just 52% in 2024. Extrapolating this trend would mean that cash payments might reach zero by 2040, reflecting significant changes in consumer preferences and behaviours.

Mobile wallet payments have increased from 2% in 2019 to 6% in 2024 and could potentially dominate the payment landscape in 5-10 years. Cash usage differs across European countries, with the Netherlands reporting only 22% of cash payments at POS, while Italy remains at the opposite end of the spectrum, with 61% cash usage.

A central bank official confirmed the long-term trend of declining cash usage in Denmark, which is now around 10%. This prompted significant initiatives from the bank, including the decision to retire the largest banknote. This decision was driven by lower demand for high denominations.

1.2 Enhancing security and resilience in payment systems

A central bank official explained that conducting comprehensive cost studies on retail payments remains complex due to lack of transparency. A 2012 euro area-wide cost study used 2009 data and was not repeated due to its complexity. The ECB published a meta-study instead, revealing varying costs for cash versus card transactions across countries. In Denmark, societal costs of cash are 0.6% versus 0.5% for card; in Italy, high cash usage raises costs. Retail payment costs in Europe amount to about 1% of GDP, with digitalisation potentially reducing this.

A central bank official explained that Denmark is implementing a solution enabling cards to work offline for up to a week during outages. While Denmark already

has a national card scheme capable of offline operation, it aims to engage with international card networks to extend this capability across all cards and simultaneously enable offline card payments through wallets such as Apple Pay. The proposed system will allow transactions to be stored at terminals during outages, with a capacity to process the transactions once connectivity is restored. This approach will leverage technology similar to that used in transaction systems functioning during air travel.

An industry representative highlighted increasing sophistication in fraud techniques and the critical need for the development of robust fraud protection measures and security tools to safeguard consumers effectively. In the meantime, with the emergence of new types of payments rails, such as account-to-account present a unique challenge and as this infrastructure matures, it will need to be complemented by tested fraud prevention solutions, as the ones used in card payments. Resilience and offline capabilities are gaining attention, though online payments still offer stronger fraud protection. An open and competitive market with multiple solutions remains essential to strengthen the ecosystem and avoid single points of failure.

1.3 Adapting to consumer behaviour and technological advancements

An industry representative identified three key trends: innovation in payment technologies, changing consumer expectations, and growing recognition of the value of digital payments. Digital payments have become increasingly prevalent, particularly in Scandinavian countries, where contactless payment methods have surged. About nine out of 10 face-to-face payments are now conducted using contactless technology, reflecting growing consumer preference for instant transaction methods.

The rising interest in instant account-to-account payments has necessitated a shift in approach compared to traditional card payment methods, indicating an urgent need for the industry to keep up with evolving security measures as digital payment adoption accelerated. An EU led initiative to develop an European Digital Identity Wallet will enable safer payments when deployed.

An industry representative explained that consumer preferences are shifting from desktop to mobile phones, desktops, smart devices and other digital solutions, supported by AI-driven solutions and digital wallets. Digital wallets have evolved into multifunctional tools, storing digital assets like boarding passes and tickets. Many non-financial firms are entering payments, representing both an opportunity and a challenge. It is important to ensure that regulatory frameworks facilitate competition and innovation, allowing all market players to thrive.

2. Policy priorities in retail payments

2.1 Impact of PSD3 and PSR on market dynamics

An industry representative observed that PSD2 advanced security, competition and innovation, and PSD3 aims to further these goals. There is also a need for continuous improvement in customer experience.

A potential European ban on surcharging is under discussion and supported by 18 EU member states. Surcharges harm the customer experience and reduce transparency.

2.2 Ensuring strategic autonomy and sovereignty in payments

An official emphasised that evolving payment systems must maintain state sovereignty, also recalling initial concerns in 2019 with the Libra project and private money issuance. Europe must decide if it can control digital transactions on its territory.

Many major payment firms at Eurofi are not headquartered in Europe. A vibrant and competitive financial sector necessitates a mix of actors, including firms headquartered within Europe and others based elsewhere. Regulatory tools are needed to maintain oversight without distorting market competition.

There needs to be ongoing dialogue with stakeholders and collaborative efforts to navigate the intersection between digitalisation and strategic autonomy.

An industry representative remarked that the world is fragmenting politically and technologically, making interoperability critical. SWIFT maintains neutrality and focuses on enhancing interoperability across central bank digital currencies (CBDCs) and fiat currencies. Global economic fragmentation could result in substantial financial repercussions, potentially leading to a reduction in GDP by approximately 6%. Coherent global standards are essential.

SWIFT is experimenting with 40 banks and central banks on CBDC interoperability. SWIFT is also committed to building a supportive framework for the development of CBDCs while preventing strategic autonomy from devolving into isolation.

2.3 Promoting Competition and Innovation

An industry representative warned about the risks of misinterpreting statistics that frame international card schemes as dominant players in Europe's payments market. The European payments landscape remains highly competitive, with strong local payment solutions and domestic rails well established across many EU countries, such as Carte Bancaire in France that is widely used. There is growing interest in Europe in promoting a broader range of European payment options to support resilience and competitiveness. Whilst an important concern, developments must ensure there remains many options available to Europe's consumers and merchants to choose from.

An industry representative explained that Amazon serves 125,000 EU sellers and millions of customers, guided by customer obsession. Customer expectations around

privacy, security, trust and convenience are evolving. It is also important to offer popular local payment options to reduce cart abandonment.

The digital euro prototype is an illustration of how Amazon is committed to supporting payment diversification, striving to enhance customer access to financial services. An upcoming prototype will focus on conditional payments intended to build trust, and this will help address refund abuse, which cost merchants billions in the EU.

3. Technological advancements and future trends in payments

3.1 Instant payments and cross-border transactions

A central bank official remarked that the ECB retail payment strategy sees instant payments as the "holy grail". The ECB has been much in favour of this for a long time and believes it is a technology that should play a role.

The ECB has developed its own system in the form of the TARGET Instant Payment Settlement (TIPS) system, which it has been running since 2018. It has been successful as an operational framework for processing instant payments, particularly in Sweden, where it has facilitated transactions in Swedish krona for two years. Denmark will join TIPS, ensuring interoperability among euro area automated clearing houses (ACHs).

The ECB supports cross-border instant payments and pan-European infrastructure and believes it is a technology that should play a role.

A central bank official outlined that Denmark is attempting to support instant payments in physical stores. Attempts have struggled in the past but now there is the potential for success with the opening of NFC chips.

3.2 Innovations in payment technologies and security

An industry representative highlighted the role of a European digital ID in improving security. By integrating digital identity verification into payment frameworks, the industry could enhance consumer trust as payments become more digital and instantaneous. Technologies such as tokenization has already helped enhancing security, but also reducing fraud risks and protecting sensitive payment data so consumer could safely and securely make purchase online.

An industry representative outlined the importance of outcomes-based and flexible regulation around strong customer authentication as vital to fighting fraud. Through an outcomes-based design of SCA rules in the PSD framework, innovations like passkeys can be enabled to become more widely adopted, promoting security and convenience in the authentication flow.

3.3 Future of digital currencies and payment diversification

An industry representative expressed enthusiasm about the digital euro but cautioned against tying it to a single wallet/bank. Pricing models should include alternatives

to card scheme-based ones.

An industry representative outlined that conditional payments in escrow can help build customer trust and tackle fraud.

An industry representative outlined that the role wholesale digital euro has been recognized by the industry. However, retail use case has less clear value proposition. A Digital Euro should be additive to what currently exists today and provide specific value proposition to the payments ecosystem as a whole in order to drive adoption.

4. Transparency, consumer protection and financial inclusion in digital payments

4.1 Enhancing consumer protection and transparency

An official emphasised the need for transparency on merchant fees to enable better solution comparison.

4.2 Balancing cash economy with digital payment adoption

An official explained that France continues investing in cash infrastructure during digital transition. Denmark's rapid cash decline offers useful lessons, ensuring that France navigates the ongoing transition carefully while considering consumer preferences and maintaining public trust in the payment system.

4.3 Addressing fraud and social engineering in payments

An industry representative warned that fraud, including social engineering, is a fast-growing global industry. It is getting smarter, and it is enabled by new tools. Fraud often originates outside payments, beginning on social media and telecoms.

Agentic AI can be used in checkout processes for a seamless experience or in a deep fake context.

5. Collaborative efforts and policy measures for an innovative and safe payment ecosystem

5.1 Collaborative efforts to navigate digitalisation and strategic autonomy

An official called for collaborative engagement to navigate digitalisation and preserve autonomy. Discussions must continue with all market stakeholders.

5.2 Policy measures to enhance consumer protection and financial inclusion

An official described PSD3 and PSR as central to ensuring consistent, fair practices. PSD3 is a cornerstone regulation aimed at stabilising operations. Among various proposals under consideration, there is a critical need for transparency around fees paid by merchants, which would enable better comparability and understanding of payment solutions available in the market.

5.3 Improving security, harmonisation, and efficiency in payments

A central bank official reported that Denmark is shifting its payment infrastructure to Frankfurt. With the migration of the Danish krone to T2 and TIPS, the execution of payments and securities transactions in Danish kroner will be centralised on TARGET Services. Denmark is the first non-euro country to use T2, TIPS and T2S. The primary aim of joining TARGET Services is to enhance cybersecurity by cooperating with other countries.