



**PSD2 Review Consultation
Netflix observations**

5 July, 2022

Netflix is a leading entertainment service provider offering subscribers access to thousands of European and international films, television series, documentaries, and mobile games. Netflix offers unlimited access to this content on any internet-connected device with a single subscription that can be canceled easily, any time.

Netflix not only offers its subscribers choice for what to watch. Netflix offers subscribers a choice for how to pay. We strive to make paying for Netflix as seamless and secure as possible. Netflix offers subscribers multiple payment methods to choose from - throughout Europe, various payment methods include credit cards, debit cards, carrier billing, gift cards, and direct debit. We are constantly testing new payment methods with the intention of giving our subscribers more choice and convenience.

Netflix also implements best-in-class security by taking a proactive approach to fraud management. This includes working to detect and stop the use of stolen information on Netflix by validating payment credentials in real-time during sign up and tokenizing card information. Netflix also actively monitors for and enforces against use of its brand to gather personal information in phishing schemes.

Netflix commends the European Commission (EC) on its development and successful implementation of the Payments Services Directive (PSD2). PSD2 sets a high bar and has been effective in facilitating innovative payment services, improving payment security and strengthening consumer protection. PSD2 has adopted a common sense approach to payment security and fraud reduction by balancing authentication needs with customer convenience, resulting in less disruption to payment service users. The current review of PSD2 should preserve these important principles and look for further improvements to increase competition and consumer choice. Netflix offers the following comments on payee initiated transactions and open banking with these principles in mind.

Payee Initiated Transactions. The EC's view on payee initiated transactions, including merchant initiated transactions has been pragmatic and rightly takes into consideration the unique factors that apply to such transactions. Merchant initiated transactions are initiated by the merchant, without the involvement of the payee, after the payee has set up a mandate to

authorize the merchant to initiate payment transactions per their agreement. The EC's view on this, as detailed in Question ID 2018_4031,¹ has been widely appreciated and adopted by the payments ecosystem. For example, Netflix subscribers authorize Netflix to initiate payments for their monthly subscription fees. Since the mandate is provided through a remote channel, Netflix requires SCA to set it up. All subsequent transactions under this mandate have a significantly lower risk of being fraudulent given the authentication undertaken at the mandate creation. This allows for a seamless and disruption free subscription service for payers who are unavailable to authenticate while they are off session. We strongly recommend maintaining and clearly incorporating this out of scope treatment for payee initiated transactions such as merchant initiated transactions into the text of any future changes to the Directive. Requiring SCA for payee initiated transactions would cause significant consumer hurdles. The key benefit of these transaction types is that citizens can count on them to occur automatically, without them having an active role. Requiring SCA for these transactions could cause disruption to receiving the goods and services citizens expect to receive.

It has also been suggested by some stakeholders that notifications should be sent ahead of payee initiated transactions. These are transactions for which the consumers have issued an express mandate to occur and are aware that they will occur. The disadvantages of such notifications clearly outweigh limited advantages, especially in light of low fraud on payee initiated transactions, SCA during mandate creation and unconditional refunds rights. Implementation of such a notification scheme would require significant effort and expense for merchants and PSPs even when cheaper communication channels are used, because PSPs will first have to build connections to merchants to receive information about potential charges. There is no cheap and scalable solution to build such connections between PSPs and merchants. Moreover, citizens already receive a significant number of notifications and requiring notifications for every payee initiated transaction would significantly increase the volume of notifications. This could be inconvenient and potentially lead to desensitization to important account notifications. Even more concerning, an influx of notifications about transactions could lead to an increase in fraudulent phishing schemes aimed at collecting personal financial information.

Open Banking. Netflix is supportive of the increased choice and flexibility that open banking promises and has begun trialing open banking in various countries around the EU. Netflix has observed that the following improvements would make open banking more successful:

- (1) Standardization of APIs would make it easier to foster a more innovative and competitive payments ecosystem. Standardization can help to reduce fragmentation and improve consistency across Europe;

¹ Question 2018_4031 - Applicability of SCA to 'card payments initiated by the payee only' - Answer prepared by the European Commission because it is a matter of interpretation of Union law

- (2) Ensuring that the consumer experience for authentication are on par with ASPSPs' own mobile applications would provide consumers a familiar and optimized authentication experience; and
- (3) Increasing citizen education about open banking would provide more awareness about choices in payment services.

Netflix is a strong supporter of the objectives of PSD2 and is committed to working with the European Commission on these and other initiatives to improve payments security and innovation.