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Stripe's Response to the European Commission's Consultation on the Review of PSD2

Europe's opportunity to update its payments infrastructure for the online economy

The EU has seen a flourishing ecosystem of payment service providers delivering user-friendly, accessible, innovative and secure payments for European businesses and citizens. This ecosystem has been enabled by a payments policy framework that supports the needs of merchants and citizens in the online economy. PSD2 has fundamentally transformed European payments for the better. Policymakers should now seize the opportunity through the Review of PSD2 to double down on the original goals they have set out to achieve: to increase efficiency, transparency and choice of payment instruments; realise a truly Single Market for payments; and help innovative payment services reach a broader market. The PSD2 Review is a critical moment to upgrade Europe's payments infrastructure, and to ensure that Europe has a payments policy framework that supports the needs of merchants and citizens as we enter the next phase of the online economy - let's make it count.

Stripe's users include hundreds of thousands of European businesses of all sizes operating in the online economy - many of them across borders. They want true pan-European next-generation payment solutions that minimise cross-border frictions and regulatory divergence within the European Single Market. We encourage the Commission and other European policymakers to focus on what needs to be done to fulfill the promise and direction of travel of PSD2 in the years to come and to ensure:

- a harmonised implementation of the rule book;
- the continued rollout of SEPA Instant;
- open access to payment infrastructure for payment service providers;
- full implementation of Open Banking, including greater API standardisation, and
- technology-enabled and risk-based ways to initiate and authenticate payments.

This will allow developers to innovate and payment providers to build commercially viable models, including alternatives to card payments.

Promoting a technology-enabled and risk-based authentication to protect European businesses and consumers

The EU has been a leader in reducing fraud in online payments, with SCA becoming the norm in many jurisdictions beyond Europe. However, businesses today are still struggling with the complexities of the rules, which vary depending on the type of purchase, whether a charge is made during or after checkout, and even the customer's bank. Stripe has designed SCA-ready payment APIs and products to help businesses manage this complexity and minimise the impact of SCA on checkout conversion. In the future, merchants and market participants alike would benefit from greater clarity on the application of the rules, e.g. to 'out-of-scope' transactions, to ensure SCA can be applied optimally during the checkout flow.

Overall, the introduction of SCA has meant that payment services providers and merchants have had to demonstrate that their fraud risk management capabilities are up to scratch. However, fraudsters move fast and will find ever more innovative ways to circumvent rules. Old ways of combating fraud were never designed for modern internet businesses and can lead to lower acceptance rates and lost revenue. Furthermore, with the advancement of IoT devices, there are many more different types of devices and use cases which are entering the mainstream of payment initiation and authentication. A multitude of ways to pay means it might not always be possible for a user to authenticate using multiple factors.

Our experience is that regulation works best when it maximises the possible innovation that can be built around it rather than prescribing point-in-time technological solutions (e.g. two-factor authentication) or picking particular business models as 'winners'. Through using Delegated Authentication, Stripe has for example achieved a 7% lift in payment conversion and four-fold acceleration for SCA payments for our users. Decreasing the likelihood of fraud should be the ultimate goal for future regulation of payment security to account for further innovation in payments and maintain a level playing field in promoting innovation in fraud protection. Machine learning, biometrics and other technology all have a role to play in protecting consumers from fraud. Therefore, we would welcome greater consideration of technology-enabled and risk-based authentication methods as the Commission seeks to review the current rules.

Facilitating pan-European instant payments through full implementation of Open Banking

We're optimistic about the potential unlocked for Open Banking under PSD2, but today its implementation is incomplete. The opening up of access to large data pools through the extension of Open Finance principles, along with the innovative application of technologies such as machine learning in financial services, holds out the potential for faster, more convenient, more innovative as well as safer and more inclusive payments for European merchants and consumers. However, Open Banking requires continued pressure and direction from the Commission in order to fulfill its potential - and much more

detailed specifications on the way Open Banking requirements are implemented by banks. A framework combining strong governance, standardised APIs and functionalities, clear and fair pricing, and robust monitoring and performance mechanisms is essential to level the playing field with existing forms of payment. Bringing the oversight of Open Banking across the EU under a single implementation entity which sets clear policy objectives, specifies desired outcomes, e.g. the availability of standardised APIs, and sees policy objectives through to implementation, could further unlock the potential of Open Banking in the EU.

There still exist a wide range of national initiatives seeking to develop API specifications. This hinders the ability of payment service providers to develop solutions to integrate APIs and offer a consistent and compelling Open Banking customer proposition. There is no EU-wide standard today. This is a significant shortcoming given the desire of European merchants for cross-border payment solutions that can enable them to accept payments seamlessly across the Digital Single Market. The experience of Open Banking implementation in the UK has demonstrated the benefits of a single implementation entity, the Open Banking Implementation Entity (OBIE) for developing common standards for the market. As a result, it has been much easier for payment providers to build viable Open Banking solutions. In addition, the UK has - with the imprimatur of the OBIE - seen further advances in Open Banking functionality by being able to mandate common standards in the provision of Open Banking infrastructure, e.g. in important areas for businesses and consumers such as the area of Variable Recurring Payments for Sweeping. Enhanced Open Banking functionality, such as through VRP, means Open Banking-enabled payments can provide a real alternative to existing rails.

We believe that in order to invest in Open Banking technology, and to buy into its vision, banks need clarity on the expectations of them and incentives for them to invest both in the short and longer term. Therefore, the success of Open Banking requires a business model for data-related services that works for them - whilst at the same time allowing payment service providers to offer a compelling, low-cost payments option to merchants and consumers.

Finally, we urge the Commission to drive forward the continued rollout of SEPA Instant to ensure ubiquitous pan-European instant underlying rails for a better user experience under Open Banking. This will allow businesses and consumers to access and transmit funds seamlessly and without friction in the whole of Europe.

Ensuring open and interoperable access to payment infrastructure

In the financial ecosystem, innovation is often hampered by silos, particularly where access to digital, financial and platform infrastructure is controlled by a few incumbent providers, whether financial or technological. Payment services providers should have open, equal and non-discriminatory access to payment methods, platform infrastructure and technical services.

As a regulated e-money institution, Stripe is not able to join SEPA payment rails directly (including for settlement). Accessing payment rails indirectly through a banking partner introduces supportability and technical limitations, operational challenges, and opaque cost structures - and limits the level of functionality we can offer and the users we can support. For example, we are very enthusiastic about the potential of Instant Payments as a foundation for real-time pan-European payments for businesses and consumers.

The inability of non-banks and smaller credit institutions to access central bank infrastructure on a non-discriminatory basis serves as a block on competition and innovation, and creates an unlevel playing field between different types of regulated institutions. Non-discriminatory access for non-banks to central bank infrastructure in the EU would require amending the Settlement Finality Directive, to include e-money institutions in the definition of 'institution' and subject them to appropriate supervision and risk mitigation. If granting access is not achieved through the review of the SFD it should be granted through the necessary provisions in PSD2.

Maintaining a regulatory regime for payments and e-money that fosters competition and innovation

The EU's regulatory approach to payments and e-money and the scope of existing regulations have fostered innovation, competition and diversity in the payment services sector, and delivered an effective and comprehensive regulatory framework for payment service providers. The current system enables firms with different business models to adopt the most appropriate regulatory licence (e.g. bank, payment institution, e-money institution). It is calibrated and applied in a way that allows for the supervision of entities according to the nature, method and volume of activity they are undertaking, thereby supporting the effective delivery of regulation and supervision commensurate with the specific risks posed by the activity. Given its effectiveness we encourage the Commission to maintain the current regulatory regime for payments and e-money as proportionate and fit for the future.

While the EU's regime for payment and e-money has generally been a success, today we see inconsistent application of EU legislation at the Member State level. For example, there are differences in interpretation of what constitutes a payment account or an agent in the current PSD2 framework. The resulting fragmentation in the implementation of the rules threatens a level playing field across Europe and could lead to regulatory arbitrage. We encourage the Commission and other European policymakers to take this opportunity to deliver a more consistent approach through greater harmonisation of the rules and guidance for Member States on their application.

Payments regulation as a driver for innovation: European Tech Voices Study

We've recently collected views of close to 200 Stripe users: founders, policy and legal leads from a diverse range of startup and scaleup businesses across Europe in our [European Tech Voices study](#). They're bullish on what Europe has to offer, from great people with diverse skills, to the close proximity

of different markets. They also see a lot of smart public policy in European payments regulation: Nearly three quarters see either SEPA or PSD2 as a big advancement. 62% believe that Open Banking is an example of smart regulation that they would like to see replicated elsewhere - both across different sectors and jurisdictions. But they also cite unnecessary friction as making it hard for them to maximise growth opportunities and putting a strain on already stretched resources. While many appreciate the idea of harmonised regulations across Europe, in practice, legislation is not consistent across countries: 50% believe that if EU legislation were harmonised they would be better able to scale across Europe. Stripe encourages the European Commission to use the PSD2 Review to make this a reality for European businesses and make European payments regulation a driver for innovation.