EUROPEAN COMMISSION
DIRECTORATE-GENERAL FOR FINANCIAL STABILITY, FINANCIAL SERVICES AND CAPITAL MARKETS UNION

Horizontal policies
Retail Financial Services

Summary

Consultation on a new Retail Finance Strategy

This document provides a factual overview of the contributions to the 'Consultation on a retail payments strategy for the EU'. The content should not be regarded as reflecting the position of the Commission.

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1. INTRODUCTION

On 3 April 2020, the European Commission launched a public consultation entitled 'Consultation on a retail payments strategy for the EU'. In line with the Better Regulation Principles, the consultation was designed to gather stakeholders' views on policies to achieve an integrated EU retail payments market.

The consultation was structured around four important policy areas, which were identified as key to achieving that objective:

1. Fast, convenient, safe, affordable and transparent payment instruments, with pan-European reach and "same as domestic" customer experience;
2. An innovative, competitive, and contestable European retail payments market;
3. Access to safe, efficient and interoperable retail payments systems and other support infrastructures;
4. Improved cross-border payments, including remittances, facilitating the international role of the euro.

The consultation closed on the 26 June 2020, and the Commission received a total of 189 responses from market players and consumers. The outcome of this consultation supported the Commission in preparing its Retail Payments Strategy.

We would like to thank all respondents for their contribution to our public consultation. This summary provides a factual overview of all responses received. It summarizes the answers received for each of the 41 questions and sub-questions. It does not aim to be exhaustive or provide detailed statistical data, but rather seeks to give a qualitative representation of the contributions received. Any opinions expressed reflect the views of the respondents and do not reflect the position of the European Commission as an institution.

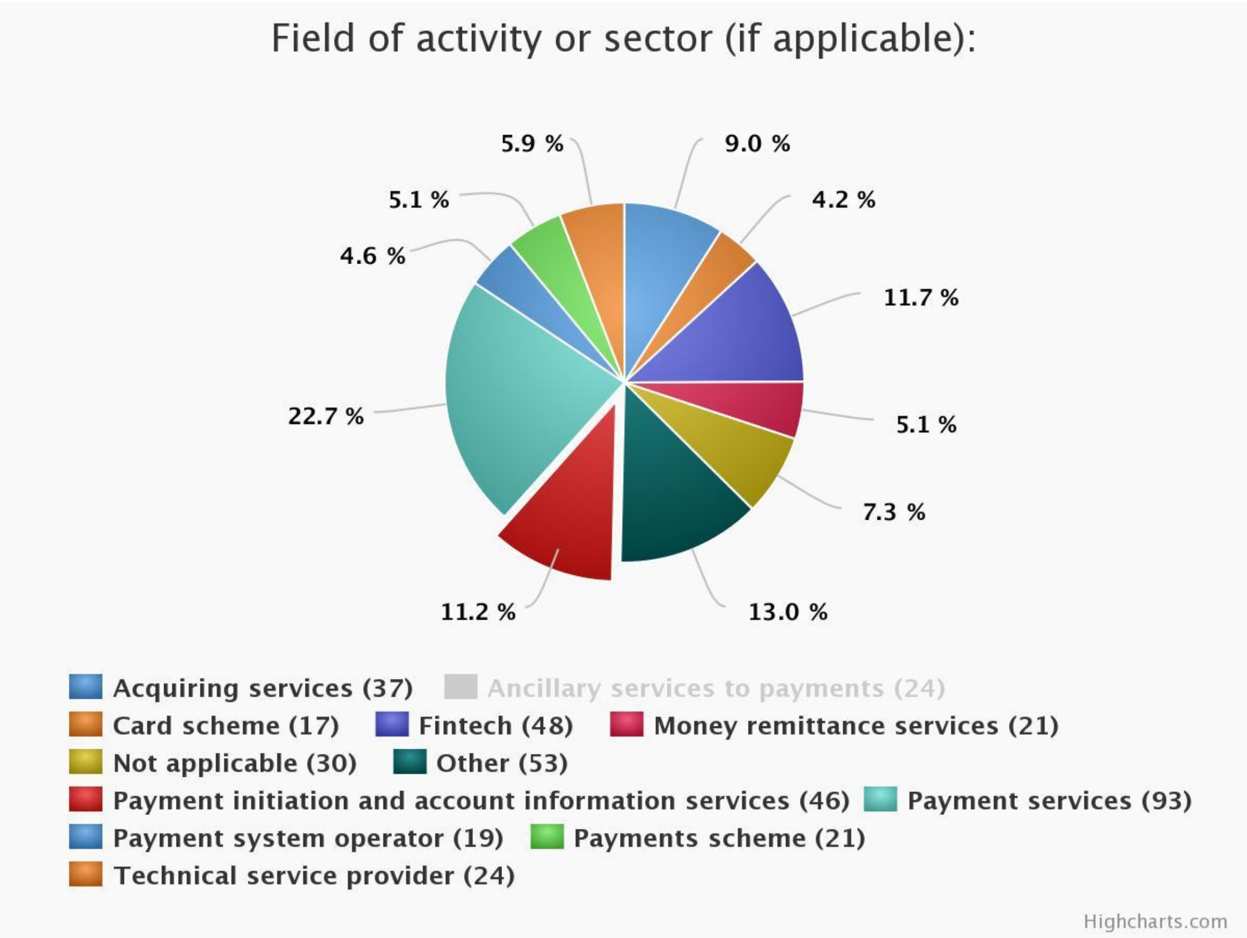
2. WHO RESPONDED?

The majority of responses was from industry participants (70,4%) consisting mainly of companies/business organizations (45,5%) and business associations (24,9%). Public authorities represented 12,2% of respondents and EU citizens 9%. The remaining categories were almost equally spread between consumer organizations (2,1%), NGOs (1,6%), Academic/Research institutions (1,1%) and Trade Unions (0,5%). A residual category represented 1,6%.

Respondents came from 23 Member States. The highest number of responses comes from Belgium (27), France (24), and Germany (20). Six respondents were based outside the European Union.

Most respondents come from large organizations (42,9%). The remaining categories are almost equally spread between small organizations (19%), medium (14,3%) and micro (14,8%).

Field of activity included mainly payment services. Individual categories such as payment initiation and account information services, FinTech, acquiring services and money remittance represented respectively 11,2%, 11,7%, 9%, and 5,1%, and altogether 37% of respondents as illustrated in the chart below.



3. SUMMARY OF RESPONSES

3.1. General questions

Questions addressed to the general public

A large proportion of the respondents answered the questions addressed to the general public. However, it should be noted that only 17 were reported under the category of « citizens ». The results broadly illustrate:

1. clear support expressed by a majority of respondents with regard to the usefulness of instant payments;
2. the broad preference for digital payment solutions over paper-based payment instruments, irrespective of the amount;
3. the relatively low share of respondents expressing difficulties with cross-border direct debits or credit transfers (so-called "IBAN[1] discrimination");
4. the relatively low share of respondents having experience in using "open banking" services, such as either payment initiation services (PIS) or account information services (AIS).

With regard to instant payments, a vast majority of respondents considered that instant payments are useful or very useful for multiple use cases, especially for P2P payments, payments for on-line shopping and payments in physical shops and cross-border payments/transfers within the EU. Additional use cases identified by respondents where instant payments could be useful included, for example, business to business payments (B2B); payments by public administrations to citizens (such as tax returns or health expenditure coverage); business to consumer payments (B2C) including salary payments or POS[2] refunds; account top-ups and transfers between own accounts.

With regard to non-paper based instruments (including dematerialized ones, such as mobile apps and payment instruments with physical support, such as cards), the preference expressed over paper-based instruments (cash or cheques) was nearly the same for both low value payments (under EUR 30) and high value payments (over EUR 30), although cash was even less preferred for transactions above EUR 30. At the same time, the perceived usefulness of cash increased with the age of the respondents. The level of security, speed, convenience and the efficiency of monitoring and controlling spending (using for instance internet banking, apps provided by account information service providers, etc.) were cited as reasons for the preference for non-

[1] International Bank Account Number.
[2] Point of sale.

paper based means of payment. In addition, respondents noted that contactless payments and mobile apps offered a more hygienic means of payment during the Covid-19 pandemic.

PIS and AIS services were not reported to be widely used, as approximately a third of respondents stated having previously made use of PIS services and slightly less of AIS services. In particular for PIS services, a number of respondents stated never having made use of such services because (1) they were never offered the possibility; (2) they preferred not to share their credentials with anybody or (3) did not trust such services. On the other hand, a large proportion of respondents considered it useful to be able to check the list of providers to which they have granted consent with the help of a single interface, e.g. a "consent dashboard".

A majority of respondents had never experienced any obstacles in receiving payments from or sending payments to either a public administration, a utilities company or other service providers from an account in another EU country. In both cases, only a minority of respondents had encountered obstacles either as a consumer or in a professional capacity. This is usually described as "IBAN discrimination", in particular for paying utility companies, other service providers, and in some cases public administrations, more specifically tax administrations refusing payments from or refunds to a foreign account.

Questions for all stakeholders

Ensuring EU's economic sovereignty and supporting the international role of the euro

Respondents largely subscribed to the idea that the European Commission could contribute to reinforcing EU's economic sovereignty through its retail payments policy. In that sense, respondents would welcome a strategy for supporting the emergence of European payment solutions, as this could significantly reduce the dependence of EU acquirers and issuers on non-EU global players (particularly in clearing, settlement and also with regard to front-end solutions). Some respondents also considered that increased independence at EU level from foreign players could also allow data, especially consumer data, to remain within the EU.

Respondents considered that the emergence of European payment solutions should not however, restrict or dictate consumers' choice, but rather broaden it. Further, respondents also highlighted that any pursuit of European economic independence should be balanced against the existing benefits that global networks provide to European players.

Respondents also considered instant payments to be an important factor in supporting Europe's independence, as these could bring efficiencies and were safer as compared to paper-based instruments.

Respondents also took the view that by removing fragmentation and by working towards a more integrated retail payments market, the European Commission would also support and strengthen the international role of the euro. Similarly, respondents also expressed positive views concerning the implementation of SCT Inst. and Central Bank Digital Currencies (CBDC) as payment solutions that could create a more interoperable and standardised European retail payments market.

Respondents from the payment industry expressed diverging views as to whether European payment solutions should be euro-centric or include other European currencies.

3.2. Fast, convenient, safe, affordable and transparent payment instruments, with pan-European reach and "same as domestic" customer experience

Instant payments as the new normal

A large share of respondents supported EU legislation making payment service providers' adherence to SCT Inst. Scheme[3] mandatory. Respondents who supported mandatory adherence to SCT Inst. Scheme suggested very diverse end dates for such a requirement, ranging from between the end of 2021 until the end of 2025-. Approximately half the respondents did not indicate any date.

In addition, a large proportion supported additional standardisation measures, pointing to a variety of areas, including inter alia, QR[4]-codes, clearing transmission protocols, data protocols, APIs[5] supporting payment initiation and account information services, authentication, e-identification, cash registry systems and e-receipts, etc.

A number of respondents also supported the development of new payment schemes, such as SEPA instant direct debit, one leg-in transactions, European electronic identity based on LEI[6], etc.[7]. A smaller number of respondents supported EU legislation adding instant credit transfers to the list of services included in the payment account with basic features under the Payment Accounts Directive[8] or EU legislation mandating replacement of SCT[9] with SCT Inst..

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[3] SCT Inst Scheme (Instant SEPA Credit Transfer Scheme) is a Scheme developed by the European Payments Council to establish common rules for instant payments in euro.

[4] Quick Response.

[5] Application Programming Interfaces.

[6] Legal Entity Identifier.

[7] Schemes for additional services enabling interoperability and governance rules between instant payment providers; Confirmation of Payee Scheme / Account Assurance Scheme; Common data schemes and messaging frameworks based on ISO 20022; European card scheme; Pan-European Mobile Payment/wallet Scheme; Scheme on data exchange between consumer and merchant; Payment schemes meeting the demands of the internet-of-things.

[8] Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features.

Amongst additional measures which might contribute to the successful rollout of pan-European payment solutions based on instant credit transfers, respondents also refered to a wide range of possible measures, including: identifying schemes to which adherence should be mandatory; ensuring open access to Near Field Communication (NFC) on mobile devices; common branding of interoperable digital wallets; mandating that instant payments are charged as a standard service; and effective regulation of global payment scheme operators to ensure a level playing field.

A large proportion of respondents considered that instant payments may pose some degree of additional or different risks compared to traditional credit transfers. These risks, according to respondents, may derive from inter alia the speed and immediacy of instant payments making them irrevocable, the lack of clear expectations and standards from regulators concerning compliance with payment screening obligations, etc. These factors could, according to the respondents, lead to fraud (e.g. authorised push payment scams,), money laundering and terrorist financing (e.g. mule accounts), cybercrime, liquidity risk for financial institutions, operational and legal risks from processing errors, higher cost for merchants and insufficient consumer protection. Many respondents emphasized, however, that solutions already exist to mitigate those risks or that they could be developed. Respondents acknowledged that such solutions could be costly, but also considered that modern technologies (such as artificial intelligence) could be useful.

Respondents pointed to the need for: dedicated, real-time fraud monitoring and prevention tools; more focus on pre-transaction initiation controls (such as confirmation of payee); a maximum threshold for instant transactions; a market-wide digital identity program; consumer communications campaigns to raise awareness about differences with other instruments such as cards . A number of respondents considered that an ad-hoc stopgap mechanism would be useful for emergency situations, as instant payments can quickly stress the liquidity situation of a payment service provider and current mechanisms are insufficient if a bank run takes place outside normal office hours.

When invited to identify the most advantageous solutions for EU merchants, other than cash, respondents where almost equally spread over three possibilities: card-based solutions, SCT Inst. solutions, and other (such as Central Bank Digital Currencies, SEPA Direct Debit (SDD) or various solutions based on a combination of smart cards, instant credit transfers, request to pay schemes, etc.). When asked what the most important factor(s) for merchants were when deciding whether or not to start accepting a new payment method, the majority of respondents pointed to the proportion of users, the seamlessness of consumer experience, level of merchant fees, fraud

[9] SEPA Credit Transfer.

prevention, reconciliation and refund services. Other factors included, for example, the implementation cost, time and effort, maintenance cost, speed of the payment solution, international acceptance, security, and system stability.

In response to the question regarding whether they accept foreign SDD payments, the majority of respondents indicated that they accepted both domestic and foreign SDD, whereas a very small number of respondents did not accept SDD at all, or only accepted domestic SDD.

Leveraging on the development of digital identities

An overwhelming majority of respondents were proponents of some form of action to be taken at EU level to promote the development of cross-border compatible digital identity solutions for payment authentication purposes. Just under half of those responding favoured further guidance or development of new standards, while a smaller proportion favoured changes to EU legislation and or some other form of action. The proponents of further action called for interoperable and open solutions to address current fragmentation and achieve greater efficiency, convenience and improved safety and security, and viewed the review of the eIDAS [10] framework as an opportunity for the development of a private sector interoperable digital identity solution.

Promoting the diversity of payment options, including cash

The majority of respondents suggested that the main factor contributing to a decreasing use of cash was the convenience of paying digitally, in particular using contactless payments. Respondents also considered the increasing importance of e-commerce as a significant factor. The shrinking availability of ATMs[11], the cost of withdrawing cash or the possibility to get cash-back for card payments were considered as less relevant in this context. Further, some respondents considered that the Covid-19 outbreak and the related need for the application of stringent sanitary measures, as well as the preference of the younger demographic for digital payments, to be significant factors in the increasing choice of digital payment instruments over cash.

A large proportion of respondents expressed a preference for digital payments over cash and considered that EU measures that preserve access to and acceptance of cash were unnecessary. Overall, respondents believed that any measures to improve access to cash should be decided either (1) on a national level, as the propensity for cash changes by Member State or (2) at market level, based on consumer demand. A fair share of respondents took the opposite view, suggesting that the EU should instead introduce measures to preserve access to and acceptance of cash. Respondents suggested that cash was a reliable “back-up” payment method, and the only

[10] Regulation (EU) No 910/2014 of the European Parliament and of the Council of 23 July 2014 on electronic identification and trust services for electronic transactions in the internal market and repealing Directive 1999/93/EC.

[11] Automated Teller Machines.

form of public money providing people with anonymity, as well as greater financial inclusion of the population.

Generally, if measures were to be introduced at EU or national levels, responses suggested that these should focus on ensuring cash acceptance as a means of payment at POS and a sufficient coverage of ATMs in the EU (including remote areas).

3.3. An innovative, competitive, and contestable European retail payments market

PSD2[12] implementation and market developments

There was a strong perception among respondents that PSD2 has so far had a positive – albeit limited – impact on the payments market. Indeed, a large share of respondents either agreed or fully agreed that PSD2 had facilitated the access to the market for payment service providers other than banks, facilitated innovation, allowed open banking to develop, increased competition and the level of security for payments.

Opinions were divided regarding whether PSD2 should be revised to include additional activities under its regulatory perimeter, with roughly a similar number of respondents taking the opposite view. A large proportion of respondents considered that the rules in PSD2, GDPR[13] and AMLD[14] should be consistent. Moreover, respondents highlighted the need to regulate crypto-assets/"stablecoins" in order to establish a level playing field with incumbents, ensure the security of the services provided and address money-laundering risks. Respondents further highlighted that for legislation to remain technology neutral, it should be reviewed to adapt to evolving business models and risks.

No clear majority emerged either in favour or against additional security measures, on top of Strong Customer Authentication (SCA). The majority of industry respondents were mainly against additional security measures, as SCA migration in the e-commerce space is still ongoing. Together with respondents from the public sector, respondents from the industry highlighted the

[12] Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC (Text with EEA relevance).

[13] Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation) (Text with EEA relevance).

[14] Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC (Text with EEA relevance).

risks of social engineering[15] and other types of social frauds, which – they considered – would be worth tackling through ad-hoc measures and awareness-raising initiatives.

A large proportion of respondents considered that innovative payment solutions should be developed and that contactless payments should be further facilitated. Respondents overall considered the uptake of contactless payments to be evidence of innovation. Merchants specifically emphasized that effective, open and harmonized payment standards were crucial for creating European innovative solutions. FinTechs favoured the emergence of credit-transfer based payments solutions and – together with banks – considered that "Request to Pay" will enable further innovation, based on SCT Inst. A minority of respondents (including card schemes) suggested that the current contactless thresholds should be revised (upwards), but consumers' representatives argued that this should be limited to exceptional circumstances, such as the Covid-19 pandemic.

Improving access to payment accounts data under PSD2

A large share of respondents considered that further actions should be taken at EU level to ensure that open banking achieves its full potential. Respondents from the industry voiced concerns over divergent implementation of open banking across the EU, and strongly favoured the implementation of data-secure and harmonized standards achieved through APIs. Around half of respondents were in favour of market-driven API standardisation (according to banks, merchants and FinTechs). A small number of respondents were in favour of redirection and possible SEPA API Schemes, whereas consent dashboards received more support. Merchants suggested that, in order to provide a seamless in-store (and remote) payment consumer experience, SCA delegation and decoupled authentication models were a better alternative solution to embedded or redirection models. Third Party Providers (TPPs) voiced concerns about the creation of closed, contractual schemes, and argued that the market should be left free to develop open interfaces and interoperability. TPPs also raised concerns with regard to the possibility for payment service users to withdraw consent via their account-servicing payment service provider's (ASPSP) dashboard. Consumer representatives supported the use of consent dashboards and suggested that the explicit consent which is given to TPPs should also be sent to the ASPSP (e-Mandate principle).

Adapting EMD2 to the evolution of the market and experience in its implementation

A large proportion of respondents considered that the E-money authorization and prudential regime was adequate. However, a number of respondents were in favour of the full alignment or further alignment between the electronic money institution and payment institution regimes.

[15] Where people are manipulated into performing actions or divulging confidential information.

A number of respondents further considered that there is a need for clarification with regard to the definition of e-money, especially regarding: 1) the distinction between e-money accounts and 'regular' payment accounts; 2) the difference between a closed loop product (e.g. fuel card) and an open loop product (general-use debit card); and 3) the payment service of issuing/acquiring under PSD2 and the issuance of e-money under EMD2[16]. These issues were considered to be much relevance by respondents, because the qualification as e-money determines the applicable capital requirements. Respondents also highlighted the need to specify the term 'distribution' of e-money, as the lack of a clear definition may raise interpretative issues, especially when services are provided cross-border.

Respondents also stressed the importance of harmonization at EU level with regard to the authorization and passporting regimes, in order to avoid regulatory arbitrage and ensure a level playing field. In this regard, respondents considered that because NCAs have full discretion as to which method to apply for the calculation of the institution's own funds, this may lead to inconsistencies in implementation. The safeguarding of consumers' funds is assured under the framework, but the proper implementation should be controlled by NCAs, as there are difficulties to obtain safeguarding on accounts and via insurance. A number of respondents also highlight that new business models should be subject to payments regulation, especially "stablecoins" and several argued in favor of applying to the issuers of "stablecoins" an obligation to redeem, as for e-money under EMD2, with a view to ensuring consumer protection, financial stability and monetary sovereignty. Several respondents also considered that an important distinction between e-money services and payment services was that as e-money issuers hold funds on an ongoing basis, the prudential obligations to mitigate the risks attached to holding funds for e-money institutions should be distinct from those applied to payment institutions.

<u>Payment solutions of the future</u>

A large share of respondents considered that programmable money is a promising development to support the needs of the digital economy. Respondents expressed mixed views with regard to how EU policies could facilitate its safe deployment. Several respondents considered that use cases are still emerging for "programmable money" or smart contracts, and that EU institutions could facilitate industry dialogue, align with wider global regulatory efforts, promote common standards and oversight regimes to allow for developments in this area, rather than take regulatory action.

[16] Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions amending Directives 2005/60/EC and 2006/48/EC and repealing Directive 2000/46/EC (Text with EEA relevance).

3.4. Access to safe, efficient and interoperable retail payments systems and other support infrastructures

<u>Interoperability of domestic Clearing and Settlement Mechanisms (SCMs) and pan-European systems processing instant payments</u>

A large share of respondents agreed that the Commission should play a role in facilitating solutions aimed at ensuring interoperability of instant payments infrastructures, albeit acknowledging the leading role of the European Central Bank. In this context, many respondents welcomed the Eurosystem's efforts to develop measures ensuring pan-European reach of instant payments though facilitating the efficient interoperability of SCT Inst.-compliant CSMs. Respondents considered that the Commission's role should be mainly to ensure political impetus, set target deadlines and provide clarifications on the legal framework, where necessary.

<u>Ensure a fair an open access to relevant technical infrastructures in relation to payments activity</u>

Certain technical infrastructures play a key role in the provision of payment services, such as for instance Near Field Communication (NFC) for contactless mobile payments. In this regard, a large share of respondents considered that the existence of legislation regulating the access to technical infrastructures supporting payments in only some Member States creates level playing field issues. Consequently, respondents considered that EU legislation should oblige providers of the relevant technical infrastructures to give access to those infrastructures to all payment service providers, at fair conditions.

The main arguments provided by respondents in favour of granting this access included fostering a competitive and innovative market for contactless payments in Europe by enabling payment service providers to compete on services rather than on technology, fostering a level playing field for PSPs and technology providers as well as enhanced consumer choice and reduced prices.

Approximately one third of respondents considered that mandatory access to such technical services could create additional security risks. However, respondents consistently argued that additional security risks can be mitigated, for example by state of the art security measures, risk management tools and procedures, regulatory measures imposed on PSPs accessing the infrastructure, as well as their oversight.

Respondents stressed that access conditions should be based on objective, non-discriminatory, proportionate and transparent criteria, and that the concept of "technical infrastructure" would need to be clearly defined in order to provide legal certainty. In their contributions, respondents referred to the following types of infrastructures: NFC on devices (most commonly referred to); biometric identity readers such as fingerprint scanners or face recognition; app stores; hardware or software infrastructure; card schemes (access by European payment processors and acquirers); POS kernels or SIM cards.

<u>Facilitating access to payments infrastructures</u>

A large proportion of respondents considered that direct access by non-banks should be supported. Amongst those, a large number highlighted the risk of too much dependence on banks as direct competitors as a determinant factor. Further, some respondents also mentioned "de-risking" and restrictions of access to banking services for non-banks, as a justification for direct access. Those against direct access highlighted the provision of indirect access by banks at reasonable conditions, due to strong competition in the provision of banking services to non-banks. Many respondents also stressed the need to amend the Settlement Finality Directive to ensure direct access to designated payment systems by non-banks.

Respondents expressed mixed views with regard to the risks of different licensing regimes for payment systems in the EU. Some considered that application of the harmonized Eurosystem oversight framework for payment systems within the euro area ensures the level playing field for payment system operators when it comes to risk management, despite possible differences in national licensing regimes. Others considered that there is a risk in terms of level playing field and that consequently payment systems operators should be licensed to ensure consumer protection, market integrity and financial stability.

3.5. Improved cross-border payments, including remittances, facilitating the international role of the euro

The need for improvements in cross-border payments was confirmed by a majority of respondents. In addition, a majority of respondents considered that the Commission should play a role, including with regard to remittances. As motivations for the Commission's intervention, respondents mentioned that money transfers are still too expensive and too slow. Respondents expressed mixed views regarding whether the Commission should take legislative or rather non-legislative action. Some respondents highlighted the need to pursue transparency and standardization objectives, others stressed the need for international coordination in global fora such as the G20. A majority of respondents considered that the following measures would be relevant or fully relevant to improve cross-border payments:

- include in SEPA SCT Scheme one-leg credit transfers;
- wide adoption by the banking industry of cross-border payment trackers such as SWIFT's Global Payments Initiative;
- Facilitate linkages between instant payment systems from different jurisdictions;
- support "SEPA-like" experiences at regional level outside the EU and explore possible linkages with SEPA where relevant and feasible;

- support and promote the adoption of international standards such as ISO 20022.

In addition, a majority of respondents considered that establishing linkages between payment systems of different countries could lower the cost of international payments.