

The European Commission's consultations on Retail Payments and Digital Finance

SUMMARY OF STRIPE'S RESPONSES

June 2020

Overview

Stripe has responded to the European Commission's consultations on its Digital Finance Strategy and its Retail Payments Strategy, two interconnected topics that will have a critical bearing on the future of the online economy and digital payments in Europe - and indeed beyond.

Stripe is delighted to engage with the Commission and to have offered our detailed views as EU policymakers develop their future policy agenda for digital finance and fintech, and for retail payments. This paper summarises Stripe's views on the principal issues raised in the Commission's consultations.

About Stripe

Stripe is a global technology company that builds economic infrastructure for the internet. Businesses of every size - from startups to scaleups to public companies - use the company's software to accept online payments and simplify running an internet business.

Stripe combines economic infrastructure with a set of applications for new business models like crowdfunding and marketplaces, fraud prevention, analytics, and more. Our tools help companies grow their business across borders within Europe and internationally.



Our founders - Irish entrepreneurs Patrick and John Collison - had experienced first-hand the difficulty of accepting online payments in an earlier business the two had launched together. On almost every front, it was becoming easier to build and launch an online business. Payments, however, remained dominated by clunky legacy providers. It seemed clear that there should be a developer-focused, instant-setup payment platform that would scale to support a business of any size. Stripe was formed to solve this problem and launched in 2011.

Today we process hundreds of billions of euros a year for millions of companies across the world, helping them to start, run, and scale their businesses online. Following our recent launches in the Czech Republic, Romania, Bulgaria, Malta and Cyprus, Stripe is now available to entrepreneurs and businesses in 28 European countries, including 25 EU member states, enabling European entrepreneurs and businesses to start accepting payments online from around the world in a matter of minutes.

Only about three percent of GDP happens online today. Stripe wants to help more companies get started and thrive, and ultimately to grow the GDP of the internet. We want to help to realize the potential of the Digital Single Market: 57% of European Internet users shop online, but only 16% of SMEs sell online - and less than half of those (7.5%) sell online across borders. By removing barriers to online commerce, we want to help more new businesses get started, expedite growth for existing companies, and increase economic output and trade globally.

Headquartered in San Francisco, we employ more than 2,500 people globally including hundreds in Europe. Our EMEA headquarters and engineering hub is located in Dublin, and we have offices in London, Paris, Berlin and Amsterdam.

Stripe's views on Digital Finance and Retail Payments

1/ DIVERSE, FRICTIONLESS, RELIABLE AND ACCESSIBLE PAYMENTS ARE GOOD FOR COMPETITION, INNOVATION AND CONSUMERS

Stripe is payment method agnostic. By enabling merchants to give customers their choice of payment options, we help businesses to grow, to reach customers across the globe, and boost conversions in other countries. Today we help businesses accept more than 25 different payment methods, including SEPA DD, iDEAL, Bancontact, EPS, Giropay,

Multibanco, SOFORT and Carte Bancaires, as well as global card networks and mobile wallets.

We are excited by developments which hold out the promise of better, more frictionless and reliable payments experiences for consumers and merchants alike.

The most important driver of payment method adoption is ease of integration for merchants, which in turn facilitates a seamless experience for consumers and thereby enables consumer adoption. If the cost of adoption and integration is close to zero, then it is very simple for merchants to adopt a new payment method.

Policy should create the conditions for the market-driven uptake of payment methods, so consumers can pay how they choose and merchants can offer seamless payments experiences that support local and global business growth, achieve higher productivity and reach customers across the world. In practice that means providing European merchants with:

- Standardized features across payment methods so merchants can provide a consistent service to consumers irrespective of their preferred payment method - we urge policymakers to be mindful of the increasing importance of these features to consumers and merchants (e.g. recurring payments) and ensure that new rules avoid any unintended consequences that impede the innovation and enhanced consumer experience these features provide;
- The ability to offer the global and local payment methods their customers prefer, irrespective of their location and device - that also means removing any barriers faced by merchants to offer consumers the payment methods they prefer;
- Reliable, resilient payments infrastructure - policymakers can help deliver even smoother, more reliable services for merchants and consumers by bringing payments closer to the rails - for example, by ensuring non-banks can access central bank payments infrastructure; and,
- Frictionless, reliable onboarding, enhancing security and reducing and mitigating risk - EU policymakers should play an enabling role, for example by making it easier to verify digital identity.

2/ OPTIMIZING PAN-EUROPEAN INSTANT PAYMENTS RAILS IS AN IMPORTANT ROUTE TO PROVIDING BETTER PAYMENTS EXPERIENCES FOR EUROPEAN CONSUMERS AND MERCHANTS

We support the rollout of SEPA Instant across Europe as a priority in order to provide a set of rails on which innovative bank-to-bank instant payment methods could be built. The Commission should mandate banks with direct access to payment systems to offer SEPA Instant.

This would benefit consumers, users and the entire financial ecosystem (including faster transmission of funds), also enabling institutions such as small banks and non-bank PSPs and their users to benefit.

This should not happen to the detriment of other payment methods, but would provide a set of rails on which innovative bank-to-bank instant payment methods could be built.

3/ WHILST PSD2 REPRESENTS WORK IN PROGRESS, WE ARE OPTIMISTIC ABOUT ITS LONG-TERM POTENTIAL

There are lessons to be learned from PSD2 about the relationship between regulation and technology. A regulatory framework that facilitates technology-driven solutions by focusing on outcomes rather than strictly prescribed authentication methods will deliver better outcomes for consumers.

We're optimistic about the potential of open banking unlocked under PSD2 but its long-term success requires a common, permissive framework allowing developers to innovate and providers to build commercially viable models, including alternatives to card payments.

Interoperability is vital in order for PSD2 to succeed for the long-term, but that doesn't necessarily mean standardised APIs. Policymakers could be very prescriptive about the information that must be provided with the consent of consumers, but without standardisation of APIs. This would create incentives for banks to develop innovative solutions.

4/ OPENING UP ACCESS TO CLOSED INFRASTRUCTURE, WHETHER PUBLIC OR PRIVATE, IS A CATALYST FOR INNOVATION IN PAYMENTS

A diverse internet economy depends on open architecture, whether financial or technological. Today, the GDP of the internet is dominated by a small number of advertising and ecommerce giants. The fixed costs of new payments technologies are a barrier to entry and innovation for startups and SMEs. Stripe is helping to create a diversified Internet economy by enabling new online business models that support a long tail of companies across all economic sectors to do business online.

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.

We support open infrastructure. Payment services providers should have open, equal and non-discriminatory access to payment methods, platform infrastructure and technical services. This is important to ensure open, interoperable payments systems. In this way all European consumers and businesses will have a right to similar and unfettered access to payment services regardless of the country they are located in, the technology they use, and the online platform they are supported by for the provision of other, unrelated services.

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.

The ECB could help to create a level playing field by offering PSPs the opportunity to apply for a central bank account with the ECB - and thereby enable PSPs to secure direct access to pan-European payment rails such as SEPA. Non-discriminatory access for non-banks to central bank infrastructure in the EU would also require amending the Settlement Finality Directive.

Open Finance can foster more open infrastructure, innovation and competition - for example, in SME lending - but to succeed requires clear policy objectives combined with the flexibility to allow regulators and industry to iterate standards as it is introduced.

5/ A EUROPEAN CROSS-BORDER DIGITAL IDENTITY FRAMEWORK WOULD HELP TO UNLOCK THE POTENTIAL OF THE DIGITAL SINGLE MARKET AND ESTABLISH A GLOBAL STANDARD FOR DIGITAL VERIFICATION

Being able to safely and smoothly verify individuals and entities online is vital for the future growth of the online economy. Indeed, identity verification is critical infrastructure for the Internet economy. However, it remains incredibly hard owing to widely divergent national laws and norms, continued reliance on paper- and in-person-based verification, and fragmented data sources.

Whilst creating and growing an online business today is easier than ever, identity verification remains an area in which the physical world outperforms the digital one. That is a significant friction to the growth of the online economy and to ensuring that its benefits are felt across Europe. For example, identity verification processes can be particularly onerous, complex and costly for SMBs and startups.

EU policymakers should introduce a pan-EU eID framework for business verification, building on the principles of eIDAS, whilst at the same time avoiding a single, centralised 'kill switch' which could block individuals from participating in the online economy. We would welcome the creation of a permissive framework which recognizes there are diverse technical approaches to solving these problems, not prescribing particular technological solutions. In doing so, the EU would be leading the way and setting standards that could be applied globally - as it has done in the area of data protection.

6/ EUROPE NEEDS TO MAINTAIN A REGULATORY FRAMEWORK THAT FOCUSES ON OUTCOMES AND KEEPS UP WITH TECHNOLOGICAL INNOVATION

Stripe is a responsible and trusted partner of established financial institutions including banks, card schemes and payment methods.

Regulation should be technology agnostic, focusing on outcomes rather than inputs. Our experience is that the best consumer outcomes are facilitated by a principles-based, risk-based approach.

In payments, the EU has broadly struck a balanced approach by enabling firms with different business models to adopt the most appropriate regulatory entity (e.g. banks,

payment institutions, e-money institutions). It is important not to lose sight of that achievement.

Policymakers should focus on regulating the application of emergent technologies such as machine learning rather than the technology itself, and enabling their use in areas such as compliance, fraud detection and authentication to achieve defined outcomes rather than enforcing prescriptive solutions.

Combined with opening up access to large data pools through the extension of open finance, the innovative application of machine learning and other innovative technologies in financial services holds out the possibility of providing more inclusive, efficient and compliant outcomes.

7/ GREATER HARMONIZATION IN THE EUROPEAN RULEBOOK WOULD BE A DRIVER FOR GROWTH AND INNOVATION

Despite the progress towards making the Digital Single Market a reality, barriers remain - ranging from inconsistent application and/or interpretation of EU rules to widely differing national laws (for example, in SME lending, consumer protection and AML rules).

Regulatory heterogeneity is a barrier to innovation and growth, especially for startups and SMEs. Additionally, prescriptive regulation that mandates specific technological solutions rather than outcomes is particularly burdensome for new and growing businesses.

Greater harmonization is necessary to address these barriers, especially for innovative and growing financial technology businesses.

8/ EUROPE SHOULD CONTINUE TO SUPPORT THE FREE FLOW OF DATA ACROSS BORDERS AS A PILLAR OF A MODERN, TECH-ENABLED ECONOMY

While some other jurisdictions have pursued data localization policies, the EU has recognized the role of cross-border data flows in a modern, tech-enabled economy. As well as providing protections for EU citizens' data, the GDPR has helped to promote high standards of data protection around the globe.

Data localization laws usually do more harm than good for citizens and the economy. SMEs are particularly hard hit by data localization measures, because they drive up costs by restricting competition and limit opportunities to engage in cross-border trade. Data

localization can also impede the security benefits of tools which rely on access to deep pools of global data.

Global companies have developed robust mechanisms to ensure that offshore hosting of data carries no downside for users and authorities. We fully support the need for relevant law enforcement authorities to audit and access all relevant customer and merchant information, which can be facilitated irrespective of the location of data servers.

9/ POLICY SHOULD NOT OVERLOOK THOSE WHO MAKE INNOVATION A REALITY: DEVELOPERS AND STARTUPS. ACCESS TO GLOBAL TALENT AND INFRASTRUCTURE IS VITAL.

Europe is a ‘powerhouse’ for talent with more than 6 million professional developers and a growing talent pool (in contrast to the US, where the developer base is static). The EU should re-think not just ‘digital skills’ but how STEM education nurtures skilled developers who will build the companies of the future - for example through closer partnerships between technology companies and universities. What is the “Erasmus-sized” idea for software developers in Europe?

Access to the decentralized ‘stack’ of internet infrastructure is essential to the ongoing success of startups and scaleups operating in financial technology. This global, software-based economic infrastructure helps to solve fundamental business challenges (payments, verification, compliance). If European fintechs face policy-imposed barriers to these tools, Europe's competitiveness and productivity will suffer.
