

Summary of EPIF 4th Annual Conference on 6th November 2019

EPIF's Fourth Annual Conference on 6th November 2019 in Brussels brought together over 120 policy-makers and industry participants to share their views and expectations of the European payments sector and to share their expectations for developments in this area over the next five years.

Keynotes and the Executive Panel

Speaking on behalf of the European Commission **Eric Ducoulombier, Head of Retail Financial Services Unit at DG FISMA**, suggested that payments are becoming a frontier of the new data economy. Payments are becoming a strategic topic for the EU. The Commission is exploring the potential of moving from open banking to open finance via the use of APIs. It will also announce the results of the review of the Interchange Fee Regulation in early 2020.

A year after the launch of ECB's TARGET instant payments settlement service (TIPS), **Ulrich Bindseil, Director General, Market Infrastructure and Payments at the ECB**, set out the benefits of this new settlement system. The ECB is embracing innovation. He suggested that the EU should adopt a comprehensive European payments strategy that builds on instant payments. While instant payment solutions are being adopted at the national level he criticized the lack of interoperability of cross-border instant payment solutions.

The ECB is agnostic on technology as long as the regulatory requirements and competition in the market are respected. The ECB is currently working on a new oversight framework, which will update and integrate previous approaches.

Dirk Haubrich, Head of Conduct, Payments and Consumers at the EBA took stock of the progress the EBA has recently made in implementing PSD2. Strong customer authentication (SCA) and accounts access are two areas that still need to be finalized. The EBA will not offer any further flexibility on SCA. The industry has to be compliant with all the requirements by 31 December 2020. During the next 15 months, the EBA will monitor progress. The EBA has aimed to develop requirements which are technologically neutral. Consequently, the requirements for SCA are set very generically, so industry can innovate. By providing further clarifications through its Q&A process or Opinions, the EBA is actually limiting the flexibility of the industry.

As of January 2020 the EBA will also become responsible for the implementation of the EU Interchange Fee Regulation.

Senior executives of the EPIF membership shared their insights on market trends and where they see challenges and opportunities for the industry for the coming years. They reflected on how the consumer is driving change. This in turn is stimulating innovation in the EU. **Paul Marriott-Clarke, CEO for PayPal Europe**, spoke about the future of authentication. PayPal embraces standards. The whole ecosystem has to cooperate if payment providers want to provide consumers with a seamless experience. The EU should develop a single e-ID standard. Adopting a harmonized regulatory framework for the EU allows companies to invest in new technologies and scale them up. **Carlos Carriedo, Senior Vice President & General Manager Europe, American Express**, talked about the contribution of payments to the real economy

and especially the SME sector. Open banking can help to solve the steps in the supply chain. He also emphasized the need to leverage global networks. Consumers want to make payments globally, Mr. Carriedo concluded by suggesting that regulation should be harmonized but at the same time not too prescriptive. Regulation should be more principle-based and outcomes-based; allowing for the evolution of new technologies. **Thomas Haarmann, Country Manager, Elavon**, talked about the opportunities PSD2 and open banking provide for merchants. When developing new regulation this should build in flexibility in the legal frameworks so that innovative ideas can be developed. **Megan Bramlette, General Manager, EU Payment Acceptance, Amazon Global Payments**, welcomed the PSD2, as it gives customers more control and reduces fraud. It will also stimulate the growth of e-commerce. Amazon has used the new requirements to re-examine how payments across their businesses are accepted and innovate for a frictionless customer experience. Amazon looks to deliver global solutions but national and regional legislation makes this more challenging. **Tim Daly, Senior Vice President, Global Public Policy, Western Union**, drew attention to the fact that the European payment market is very diverse. The lines are blurring between traditional payments companies and new entrants, with all moving towards digitalization. While the EU has created a single payments market, national anti-money laundering (AML) rules are continuing to fragment this single market. The inconsistent application of AML standards in the Member States is undermining the efficiency of their implementation and he called for a maximum harmonization regime for AML and better cooperation on enforcement in the EU. He also agreed that the EU should develop a common e-identity.

In her closing keynote, **Eva Maydell, MEP** highlighted that the EU will need to adapt to the fast-paced change of the digital revolution, balancing security concerns with innovation and growth. She also stressed the importance of collaboration within ecosystems and the exchange of ideas. The EU will have to take decisive action in the coming years if it wants to be an actor in the market for future payments and not just a mere spectator.

Marius Jurgilas, **Board Member of Lithuanian Central Bank**, summed up the day's discussion. He picked up on the importance of having a coherent European payments strategy. He welcomed the efforts by the Commission and the ECB to have a European system that can compete with global non-EU players and ensure the strategic autonomy of Europe. He referred to the potential creation of a pan-European payments systems initiative by the private sector known as "PEPSI", which aims at creating new European cross-border payment solutions. He stressed that Europe needs to remain open to technological innovation while ensuring safety. Mr. Jurgilas closed by calling on the EU to work towards greater cooperation in the area of AML.

Summary by issues

Instant Payments

Etienne Goosse, Secretary General of the European Payments Council, provided an update on the SEPA Instant Credit Transfer (SCT Inst) scheme. Since its launch two years ago, adherence reached the 50% mark in terms of PSPs. While it is an optional scheme, the aim is to achieve "critical mass" in the euro area by the end of 2020. He was critical of calls by the European Commission to already expect this target to be met by mid-2020. Mr Goosse said that the EPC is agnostic as regards solutions, business models and instruments. The market has to determine which instruments are being used to pay; with merchants and their consumers being the judge. The EPC supports the idea of **harmonized payments in Europe**. He noted the current risk of SCT Inst being rolled out at national or regional level creating fragmentation in the Single Market.

IFR Review

The discussion of this panel focused on the way the IFR has changed the market, its impact on card payments in Europe, the impact of new pan-European payment solutions, and possible next steps.

Regarding **the review itself** the Commission confirmed that the review, due to be published next year, will be based on a study by Ernst and Young (EY) and will consider whether there may have been substitution or circumvention of the rules. The review will include input from different Commission services, looking into the scope and effectiveness of the Regulation. There will be a lot of focus on interchange fees, market developments and new entrants into the market. The Commission noted that not all interchange fees should be covered by the Regulation. Therefore the Commission would need to carefully consider whether the scope of the Regulation would need to be extended. This will be the subject of wider policy debate. The representative from the UK Payment Systems Regulator elaborated on the UK experience. The PSR has extensively assessed the impact of the IFR and concluded that it is too early to determine the impact that the Regulation, especially on the emergence of new payment products.

The panelists broadly agreed with the shortcomings of the Regulation presented by the European Commission. Nonetheless, the industry speakers also highlighted that the IFR do not meet its competition objectives. The IFR has not led to the emergence of new card based payment solutions in the market. Open banking might more radically change the payment landscape in Europe, with any cost reduction benefiting large merchants more than small ones. Consumers have not really seen any fee reduction filter through to them. Views differed as to the increase of scheme fees and whether and how this relates to the reduction of interchange fees. Moreover, the competition policy commitments on interregional interchange fees negotiated with Visa and MasterCard add a further layer of complexity to the payments market.

On the aspects that should be addressed in the review, panelists agreed on the need to promote competition in the market. Payment providers suggested setting the IFR review into the context of the wider reforms in the European payment market. Merchant representatives noted that scheme fees should be addressed in the review. Commercial cards should also be brought into scope. Any fee reductions should, according to their consumer representatives lead to cost reductions for the end user.

AML/CFT

The fire side chat focused on three main issues: greater harmonization of the rules, the possible need for an EU supervisory body and the importance of information sharing by industry to public authorities, as well as among public authorities, especially law enforcement agencies.

Speakers agreed on the need for further harmonization. The European Commission said that further reforms to improve the AML framework are imperative and will be high on the agenda of the incoming Commission. The Commission will consider moving from a Directive to a Regulation, at least for some of the provisions. The focus will also be on ways to strengthen cross-border cooperation and information sharing between the Financial Intelligence Units (FIUs) in the EU. The assessment might also include the creation of a central EU supervisory body. The discussants called for in-depth analysis of the key issues identified by the Commission in its July 2019 assessment of the AML/CFT landscape. The Commission

and Interpol agreed that there is still room for improvement when it comes to its implementation. There was a general agreement that in particular the Consumer Due Diligence (CDD) procedures should be harmonized. EPIF members were also highly critical of the supranational risk assessment process of the EU. This had led to a situation where innovative and online payment solutions are inherently deemed more risky than traditional means of payment. The assessment does not take into account the scale of modern risk mitigation techniques.

PSD – SCA and API

The panel focused on four key topics: the market impact of PSD2, the implementation of Strong Customer Authentication (SCA), the future of Open Finance and APIs, and how the PSD2 sets the landscape for the future of payments in Europe

On PSD2, all agreed that the Directive has been a success in terms of its aims to foster more competition, innovation and security. New players are already emerging and entering the market and there has been a strong interest in the legislation globally, as Europe is seen as a frontrunner in standard-setting. The PSD2 has also been a wake-up call for the banking sector and forcing credit institutions to re-evaluate how they can improve the customer experience. If asked to do it all over again, the Commission would have approached the legislation in the same way, with the possible small exception of SCA. However, it is too premature to draw conclusions as to whether or not the impact of PSD2 is as expected. We are only at the beginning of the journey.

Regarding SCA, there was agreement that the extension of the implementation, as proposed by the EBA, is needed. However, views differed as to whether or not the risk of disruption was exaggerated. The Commission emphasized that the agreed extension of the implementation is an exception and legally speaking the rules are in force since 14 September 2019. While the EBA Opinion proposes an extension of 15 months, the UK remains committed to their original timetable agreed with the industry of up to 18 months. Industry commented that there are still a number of outstanding questions which the payment sector had submitted to the EBA via its Q&A tool; for example the treatment of dynamic linking is not yet clear. The Commission also acknowledged that there are some remaining questions related to the treatment of SCA in relation to TPPs.

Industry speakers suggested that the 15 month extension will only work if all parties in the payment chain work towards the same objective. This involves the Member State supervisors, payment service providers and merchants. SCA has in particular been a challenge for merchants who do not necessarily have the resources to implement the changes. The current rules only require the supervised entities to report to supervisors on the progress in implementation. This could lead to gaps.

Turning to secure communications and APIs, speakers agreed that this provision has not yet been fully implemented in all Member States. While there has been a lot of testing of APIs in some Member States, this has not been the case in others. There are also huge differences in the functionalities that the respective APIs provide. Panelists supported greater harmonization. The discussion then turned to the findings of the ERPB Working Group on an API Access Scheme. While this work has for now been suspended until the RTS on secure communications under the PSD2 have been fully implemented, there was general agreement that a SEPA API scheme could make sense, especially if granting access to bank account data beyond the scope of the PSD 2.

There was general agreement that this was not the time for a PSD3. The PSD2 should be allowed to succeed first. With the increasing importance of digitalization and data, the pressing issue is to move to

open finance and data through regulation on data access and sharing. The focus should also be on ensuring payment services providers provide their customers with smooth journeys.