European Payment Institutions Federation aisbl

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EPIF's views on the future of European payments

Executive Summary

EPIF members have prepared this paper to outline their views, expectations and recommendations for the future of European payments. For EPIF, the future payments landscape in Europe would benefit from measures under the four following themes:

1. Implementation of the PSD2
2. Harmonisation in the implementation of the AML regime
3. Interoperable e-ID
4. Amending the Settlement Finality Directive

The payments landscape has changed in the last years, with the entry into force of the PSD2 and developments in technology and Fintech introducing many new players into the payments market. However, in some instances, EU legislation is not applied in a cohesive manner across Member States, which presents potential issues for players in this new ecosystem. At the same time and coupled with a shifting technology environment, it is important to allow time for the impacts of recent legislation to become evident in the market before introducing new regulations or amending existing legislation. EPIF would therefore encourage a legislative pause in the payments market but an increasing focus on consistent implementation and harmonization of existing regimes.

Nevertheless, EPIF members would see a benefit in further action with regards to e-identity and the Settlement Finality Directive. In general, there is a lack of mutual recognition of e-ID and interoperabily of e-ID schemes within the EU which is due to fragmentation of practices across the Member States. The introduction of a common electronic solution (via interoperability) to identification could help in the development of electronic AML and KYC solutions. With regards to the Settlement Finality Directive, EPIF believes that this could be amended to allow the non-bank sector to access TIPS.

EPIF’s Views on the Future of European Payments

1. Implementation of the PSD2

EPIF members believe that consumers will drive innovation in payments. Consumer protection and transparency are key, but it is also important to see the results of regulations that have recently entered into force before introducing new regulation. Consequently, EPIF is in favour of a legislative pause in the payments market and for existing legislation to be implemented and tested before proposing any amendments, for example to the PSD. The focus should be on consistent implementation.

EPIF has been regularly raising examples of challenges in the implementation of the PSD 2 related to different national practices and interpretations. We welcome the role of the European Commission and EBA in seeking more harmonised approaches but the Commission should strengthen its role to facilitate consistent definitions and approaches to the implementation of legislation. The PSD2 is a Directive. The level of national discretion is creating friction in what is in essence a network economy. EPIF is in the process of mapping out some of the diverse supervisory approaches our members are seeing across Europe in the application of the rules.

With particular reference to the secure communication provision, EPIF welcomes the creation of a platform or group comprising the EBA and NCAs that will carry forward the API evaluation group and foster a common understanding in how they should assess the compatibility of APIs against the requirements of the PSD2. The current Evaluation Group, in its current or another format, could maybe be retained as an advisory group.

We also believe that the ERPB can also play an important role in this regard. EPIF strongly supports mandating the ERPB to establish, at the appropriate moment, a working group to develop common standards and messaging protocols throughout the payment chain for communicating relevant information on the practical application of fraud for the purpose of Transaction Risk Analysis. Without this added level of clarity and in the light of the current liability regime EPIF fears issuing PSPs might not accept the TRA exemption. This would remove an important incentive for industry to invest in new fraud prevention solutions that aim to make the payment experience for the consumer as seamless as possible.

EPIF would also like the EBA and ECB to adopt harmonised approaches to the measuring and reporting of fraud. This should include the definitions of fraud, fraud measurements and in particular the definition of authentication fraud for the application of the Transactional Risk Assessment.

2. Harmonisation in implementation of the AML regime

The European Commission has recently presented draft legislation that would strengthen the cooperation between the relevant competent authorities in the EU. We believe this offers a valuable opportunity to assess and improve cross-border cooperation on AML policies. The AML Directives are minimum harmonisation measures. Member States are therefore able to set additional standards, determine their own reporting frameworks and arrange the nature of cooperation between the national financial services supervisors and Financial Intelligence Units (FIUs). More harmonisation would lead to efficiency gains across the system, an improvement in law enforcement and would allow the industry, including FinTech companies, to invest in new technologies based only on one European standard. The European rules should also remain as closely aligned with the international framework as possible, especially the FATF guidelines. Consistent application should improve early detection and also improve the financial services industry's contribution and cooperation with law enforcement.

The EU should contribute to a better information exchange of suspicious transaction reporting. The industry already cooperates with law enforcement to calibrate the quality of data that is of use and apply a risk based approach that leads to investigations, prosecutions and convictions. Where there is room for improvement is in regard to the exchange of data between EU Member States The aim should be to avoid gaps in information. Importantly, EU rules should carefully balance and clarify the interrelationship between data privacy and secrecy laws on the one hand and the need for AML on the other.

There are currently a number of cases where bank and non-bank financial institutions are treated differently (for example the case of reporting of low value suspicious transactions). As customers are moving increasingly to online payment solutions and the ability of fraud and AML detection in the online environment equals or outperforms face-to-face identification EU regulation should ensure a level playing field and remain open to technological innovation.

In addition, EPIF members support the horizontal cooperation of different DGs. For example, EPIF would like to stress the importance that the Supranational Risk Assessment (SNRA) has on the payments sector. This is currently being undertaken by DG JUST, however due to the importance that this has for the industry, EPIF would urge DG FISMA to work together with DG JUST in this area. This would allow DG FISMA to share its expertise in the financial services field in order to achieve effective results and is similar to how DG FISMA and DG COMP worked together when working on the Interchange Fee Regulation (IFR).

3. Interoperable e-ID

EPIF believes that e-identity is an important element of future payments and its development should be fostered. This could be undertaken through a number of actions. Member States should be encouraged to open up their respective national applications of the E-IDAS Regulation to the use in private commercial contracts and the use of identification in payment services. Moreover, the EU should introduce the need to make the respective national E-IDAS solutions interoperable into the legislation.

In addition, EPIF strongly supports mandating the ERPB to establish, at the appropriate moment, a working group to develop common approaches to the practical application of e-identification throughout the payment chain. This should ideally be based on the interoperable e-IDAS solutions.

There is a lack of mutual recognition of e-ID and interoperability of e-ID schemes within the EU which is due to fragmentation of practices across the Member States.

The introduction of a common electronic solution (via interoperability) to identification could help in the development of electronic AML and KYC solutions. Comprehensive Digital KYC programmes should include a number of controls applied at transaction level and should consider the metadata gathered from customers with every online interaction. Machine learning models that become more accurate as customers keep making transactions will achieve a higher degree of reliability than a mere ID verification check conducted at the outset of the business relationship. By using multiple data points (consumer, device, geography, transaction, payment instrument) and moving towards a more “progressive/ongoing KYC” approach rather than an only ID check at onboarding, CDD would be significantly more effective and accurate.

This would significantly reduce the compliance costs for payment institutions involved in electronic payments, including one-off payments. It is crucial to ensure technological neutrality due to the speed of technological progress and fintech developments. It would reduce the inherent bias towards account-based payments and would help reduce fraud and increase the commercial incentives for industry to develop and invest in more efficient technologies to deal with e-ID. All of this would facilitate cross-border trade and the Single Market.

EPIF would also support the introduction, at EU level, of a common & single identifier for Merchants. Typically, such a unique identifier would be of great use for the implementation and management of Trusted Beneficiaries lists by ASPSPs, as related to PSD2. It would enable to identify unequivocally a beneficiary, across the different payment means, card brands, etc, while at the same time would not be sensitive information to store and exchange.

4. Amending the Settlement Finality Directive

EPIF members believe that the Settlement Finality Directive should be assessed and should not pose an obstacle to extending TIPS to the non-bank sector.

Instant payments open opportunities for payment initiation and acquiring in particular. It also allows for the development of APIs and other overlay services, especially in the area of guarantees and new customer products, such as phased payment solutions, small scale payments etc. The one challenge for EPIF is of course that instant payments are account based which does not favour all our members equally.

EPIF also supports TIPS but members are concerned that the ECB has no intention of opening Target 2 and thereby TIPS to direct access by non-banks. In this regard the ECB differs from the Bank of England. The ECB argues that the current legislation of the PSD2 and Settlement Finality Directive preclude access. The ECB stressed that they might accept direct access but only after these laws are changed. New members would of course have to meet the ECB’s other technical conditions which we fully acknowledge.

TIPS foresees three types of members. The first participating members are banks that effectively have Target2 accounts. TIPS is linked to Target2 for the ultimate intra-bank settlement. Ideally PIs want the choice to join this category of members.

Secondly, there are so called ‘reachable participants’. These are de facto indirect clearing members that want to have access to TIPS but do not qualify for Target2. Payment institutions would currently fall in this category. These are based on contractual arrangements with the participating members (de facto banks with a BIC number) and could participate in the system up to pre-agreed thresholds. There would be no segregated accounts with the participating members. Access to TIPS would depend on commercial relationships as is the case for any other bank client. This could create possible conflicts.

EPIF would advocate amending the Settlement Finality Directive. This would then lead through to the existing access requirements in the PSD.

ABOUT EPIF (EUROPEAN PAYMENT INSTITUTIONS FEDERATION)

EPIF, founded in 2011, represents the interests of the non-bank payment sector at the European level. We currently have over 190 authorised payment institutions and other non-bank payment providers as our members offering services in every part of Europe. EPIF thus represents roughly one third of all authorized Payment Institutions in Europe. Our diverse membership includes a broad range of business models, including:

3-party Card Network Schemes

Acquirers

Money Transfer Operators

FX Payment Providers

Mobile Payments

Payment Processing Service Providers

Card Issuers

Third Party Providers

Digital Wallets

EPIF seeks to represent the voice of the PI industry and the non-bank payment sector with EU institutions, policy-makers and stakeholders. We aim to play a constructive role in shaping and developing market conditions for payments in a modern and constantly evolving environment. It is our desire to promote a single EU payments market via the removal of excessive regulatory obstacles.

We wish to be seen as a provider for efficient payments in that single market and it is our aim to increase payment product diversification and innovation tailored to the needs of payment users (e.g. via mobile and internet).