

EPIF RESPONSE TO CONSULTATION THE WHITE PAPER ON AI

June 2020

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 (“PI”) in Europe. All of our members operate online. Our diverse membership includes a broad range of business models, including:

- Three-party Card Network Schemes
- E-Money Providers
- E-Payment Service Providers and Gateways
- Money Transfer Operators
- Acquirers
- Digital Wallets
- FX Payment Providers and Operators
- Payment Processing Services
- Card Issuers
- Independent Card Processors
- Third Party Providers
- Payment Collectors

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).

EPIF's response:

Artificial Intelligence (AI) is an essential and increasingly used technology by EPIF members. EPIF is equally committed to the “twin objective of promoting the uptake of AI and of addressing the risks associated with certain uses of this new technology”. AI enables EPIF members to provide improved products and services to their customers, protect the system from financial crime and fraud and strengthen cybersecurity. EPIF's members are currently investing heavily in AI applications. EPIF members are in particular at the forefront of developing and applying AI solutions for security and consumer protection issues, including fraud prevention and anti-money laundering.

The approach in Payment Services Directive around transaction risk analysis (TRA) for the identification and calculation of fraud levels are particularly important for EPIF members. If effectively implemented and not overly prescriptive this creates the right incentives for the payment industry to invest in AI supported applications that help reduce fraud in the payment chain and improve the customer experience by removing the need for overly complex authorisation and authentication mechanisms. These risk assessment methods are evolving fast and are adapting to our customers behaviours and preferences.

Given the speed of technological developments in AI, EPIF members believe that the EU approach should allow the benefits of AI to be realized before introducing regulation that could potentially limit the growth of the industry. While allowing for flexibility and innovation, the EU approach to AI should be as harmonized as possible and developed with the participation of industry and relevant stakeholders. This would allow for AI applications to be rolled out EU-wide reaping the benefits of scale that the Single Market should offer. The EU rules should also allow for a competitive EU environment that would allow start-ups and new payment providers using and developing AI to scale up. It is also important to promote private sector engagement and public/private partnerships to create a framework that could lead to ethical AI applications that contribute to Europe's digital development.

Given that technology is global, EPIF also welcome the EU's intention to continue promoting cooperation on AI on the international stage.

Turning to some of the specifics of a European response:

- Consider Ethical issues: EPIF believes that the design and deployment of Artificial Intelligence (AI) should be ethical and human-centred. To this end, EPIF welcomes the EU AI Ethics Guidelines and their revision in 2020 taking into account the responses of industry to the piloting process. The close cooperation between industry and policy-makers is important for EPIF members, including between industry and supervisors on how to incorporate a supervisory regime for AI.
- For the payment industry the use of data is of critical importance. Our members are strong proponents for a move in Europe towards open finance. EPIF members fully comply with the GDPR. We understand that making high-quality data more accessible is a pre-requisite for developing sophisticated AI systems and support measures to do so. At the same time we have

experience incidents where competing EU policy objectives can create regulatory tension. The requirements for anti-money laundering or know-your-customer requirements have sometimes been interpreted as being in conflict with the requirements of the GDPR. Such uncertainties can at times impinge on the development of effective AI solutions aimed at improved compliance while reducing the costs for the industry.

- Improving the identification of typologies such as money laundering and consumer fraud activity and reducing false positives in Compliance actions is an ongoing priority
- Provide regulatory clarity: EPIF expects AI to be increasingly present in the FinTech sector and a regulatory framework is required to apply these tools responsibly, consistent with our mandate to safeguard consumers against financial crime. EPIF members would also like to caution against algorithmic transparency insofar as it would endanger trade secrets and infringe intellectual property, which is particularly relevant when it comes to the principle of explainable AI. To support the development of AI, any new AI regulatory initiative should be principles based, and harmonize the requirements across Member States.
- Regulatory alignment and harmonisation: The White Paper notes that the new regulatory regime would apply to all relevant economic operators providing AI-enabled products or services in the EU, irrespective of their country of origin. EPIF believes that extraterritorial enforcement of EU standards without agreement from other countries outside Europe would be difficult to manage. Without an agreement, this will be a challenge to companies operating globally who may want to standardize their operations. EPIF would clarification on how this situation would be addressed in practice.
- EPIF believes that the European Commission should encourage the private sector to collaborate to create technical standards. The companies engaging in AI know the nature of the applications, and how-to best deal with operational issues, and should be invested in creating workable standards. Having such standards (which could be revised over time) would also allow for flexibility as innovation continues, compliance by design, and potentially allows fast-tracking certification and deployment.
- Finally, it is critical that supervisory authorities improve their own resources and capabilities around. An important first step could be the introduction of machine-readable supervisory reporting. Overall, the industry's ability to develop AI solutions is ultimately dependent on the supervisors understanding and comfort around the use of these applications.