Consultation on a retail payments strategy for the EU

Introduction

Consumers and companies make payments to fulfil their everyday needs and activities. Today, in Europe, they have at their disposal a broad range of payment options, but digitalisation and innovation bring new opportunities to make payments faster, easier, more transparent, and affordable, in particular in cross-border situations.

In accordance with its Work Programme for 2020, the Commission will adopt a Strategy on an integrated EU Payments Market (hereinafter “Retail Payments Strategy for the EU” or “RPS”). It is to be submitted alongside the Digital Finance Strategy, which will be adopted to promote digital finance in Europe while adequately regulating the risks, and in light of the mission letter of Executive Vice-President Dombrovskis.

This strategy will be an important contribution to reinforcing the international role of the euro. Payments are strategic: where decisions are made, where data is stored, where infrastructures are located are of considerable importance in terms of the EU’s sovereignty. This strategy will aim at both strengthening Europe’s influence and consolidating its economic autonomy. Safe and efficient payment systems and services can also make a strong contribution to improving the EU’s ability to deal with emergencies such as the Covid-19 outbreak. Contactless payments in shops can help to contain the spread of viruses. Innovative, non-cash, payments solutions can enable all Europeans to make the purchases they need even if they are confined at home. This crisis is further accelerating the digitalization of the economy and, consequently, of payments. Instant payments are in this context becoming more strategic than ever before.

This consultation, together with the consultation on a new Digital Finance Strategy, is a key step towards the adoption of a Retail Payments Strategy for Europe.

Payments are vital to the economy and to growth, while the smooth functioning of payment systems is paramount to financial stability. The use of non-cash means of payment has consistently increased over the years in the EU and this trend is expected to continue with digitalisation.

EU legislation in the payments sphere has played a key role in promoting a fair, transparent, innovative, and competitive payments market in the EU. The E-money Directives (EMD1 and EMD2) and the first Payment Services Directive (PSD1) introduced a licensing regime that allowed for the issuance of E-money and the provision of payment services by non-bank financial institutions. This prompted the development of a number of FinTechs operating in the payments sphere, a trend that further accelerated due to the changes introduced by the second Payment Services

Directive (PSD2) which enabled new business models based on the sharing of data, such as payment initiation services (PIS) and account information services (AIS). At the same time, PSD2 elevated the general level of the security of payment transactions through the implementation of strong customer authentication (SCA). PSD2 has become a worldwide reference in terms of open banking and secure transactions. The EU regulatory framework in the payments sphere supports the Single Euro Payments Area (SEPA), whose objective is to make cross-border payments in euro as cost-efficient and safe as domestic payments, in particular through Regulation 924/2009 on cross-border payments.

Technology has also shaped the evolution of the retail payments market. Indeed, payments are a dynamic, constantly evolving business, heavily relying on technology. Over the last decade, they have been influenced by an unprecedented development of a broad range of technologies. In an increasingly connected world, consumer expectations are also evolving, making speed, convenience and ubiquity the new expected normal, at no expected additional cost. European citizens also count on the benefits of a truly integrated Single Market, which should allow them to make cross-border payments in the EU as easily and as fast as at home.

As for many sectors, digitalisation and the use of innovative technologies bring new opportunities for payments, such as: a more diverse offering of services enabled by access to mobile and internet networks; systems enabling payments credited to beneficiaries in just a few seconds (the so-called "instant payments"); potentially fully automated payments associated with the development of the Internet of Things; and the execution of smart contracts in a blockchain environment. Other technologies, such as those supporting e-ID, can also be leveraged to facilitate customer on- boarding and payments authentication in domestic and cross-border contexts.

The size of the Single Market also offers opportunities for payment businesses to scale-up beyond the domestic sphere, for pan-European payment solutions to emerge, and potentially for European-scale champions in payments to become competitive globally. This would also facilitate payments in euro between the EU and other jurisdictions and reduce EU dependency on global players, such as international card schemes, issuers of global "stablecoins" and other big techs. The Commission launched in December 2019 a public consultation to gather information and inputs regarding the regulation of cryptoassets, including stablecoins. The present consultation will therefore not include questions on this topic, as payment related aspects were also included in that consultation.

However, digitalisation also brings potential new risks, such as heightened opportunities for fraud, money laundering and cyber-attacks (in this regard, the Commission launched a public consultation on improving resilience against cyberattacks in the financial sector in December 2019). It also has an impact on competition and market structures in view of the growing role played by new market actors currently outside the scope of payments legislation, such as big tech companies benefitting from a large customer base. Also, the possible impact of "stablecoins" on monetary sovereignty has prompted many central banks to investigate the issuance of central bank digital currencies (CBDCs). Nor should we neglect the potential risks, in a digital world, of financial exclusion — including with regard to the access to basic payment services, such as cash withdrawals.

Other challenges arise from a yet incomplete roll-out of instant payments in Europe. It will be important to avoid outcomes that re-create fragmentation in the Single Market, when a substantial degree of harmonisation has been achieved in the framework of SEPA.

As the emergence of new risks and opportunities accelerates with digitalisation, the development of the FinTech sector and the adoption of new technologies, the EU must adopt a strategic and coherent policy framework for payments. The RPS will be an opportunity to put together, in a single policy document, the main building blocks for the future of payments in Europe.

In line with the Better Regulation Principles, the Commission is herewith inviting stakeholders to express their views. The questionnaire is focused around four key objectives:

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 outcome of this consultation will help the Commission prepare its Retail Payments Strategy, to be published in Q3 of 2020

CONSULTATION

Section 2: Questions for all stakeholders

Question 10. Please explain how the European Commission could, in the field of payments, contribute to reinforcing the EU's economic independence:

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.

EPIF members believe that a collaborative approach between consumers, the users and providers of payments infrastructures will optimise innovation in payments. Consumer protection and transparency are key in defining regulations. However, such requirements should encourage innovation which will allow the industry to provide for the payments solutions consumers are looking for. It is therefore also important to reflect on the effectiveness and impact of existing regulations prior to introducing new regulations.

It is important to highlight, EU legislation is not applied in a consistent manner across Member States, which presents potential issues for payment service providers in the ecosystem. At the same time and coupled with a shifting technological 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. EPIF has for example consistently be calling for a common EU plan for the implementation of SCA and the secure communication provisions of the PSD2, including as regards any exemptions under the PSD2. EPIF is also active in advancing standard setting in the European payments market, as part of its membership in the ERPB and EPC, as well in any relevant other EU and European Commission working groups.

While the focus should be on implementation, EPIF believes that the future payments landscape in Europe would benefit in particular from measures related to the following three areas:

1. Harmonisation in the implementation of the AML regime
2. Interoperable e-ID
3. Ensuring direct access by non-bank payment providers to Target 2

Harmonisation of the AML/CFT regime: The European Commission will present 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, building on a risk-based approach, 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.

Conflicts often exist between AML and data privacy legislation. It would be helpful to establish clarity on the overlap between these requirements, so companies are not in breach of data protection regulations when complying with AML/CFT legislation.

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.

We will return to EPIF's two other policy priorities under the appropriate headings of this questionnaire.

Question 11. Please explain how the retail payments strategy could support and reinforce the international role of the euro:

EPIF agrees with the Commission position, set out in the Communication referred to in the in the introductory section to this questionnaire, namely that a European instant payment infrastructure could strengthen the role of the euro. However, we should emphasize that also a European cards clearing infrastructure is needed for strengthening the role of the euro for retail payments.

We believe that instant payments at the Point Of Interaction (POI) could be complementary to card payments.

Push payments and pull payments both have their inherent strengths and incur inherent risks. Both types of payments can serve specific demands of specific merchant sectors. Besides the differentiation in functionality, convenience and many other factors, there is a large portion of payments, which can be served by either type.

EPIF therefore believes that European infrastructures for push (inst@poi) and pull (cards) should be developed in parallel, as a complementary approach.

Strengthening the euro therefore will mean to build European infrastructure for card clearing as well. Obviously, such infrastructure could be built as "instant payment", i.e. SMS.

International payments are instrumental to trade and global business. Yet, it is a segment that has remained relatively overlooked by the digital transformation. It is clear that there is substantial room for improvement:

- International Payments can take days and sometimes weeks to arrive at the recipient's account;
- The content of messages is erratic and hard to match to open positions;
- Fees are substantial and unpredictable due to the involvement of multiple actors in the process; and
- The overall integration into customers' value chains is poor.

All of this leaves the EPIF membership offering alternatives. We believe things can be done much better.

- **Harmonized, future-proof and outcome-based regulation**

EPIF believes that technology has the potential to democratize financial services across borders. With the right technical and regulatory framework, financial technology companies can provide consumers with the flexible, convenient and safe level of service that they now expect from any other industry.

Any new regulatory measure must be future proof, harmonized, risk-based and technology neutral to allow to review regularly as new markets and technologies emerge. It must also support financial technology solution providers to operate in multiple jurisdictions.

Regulators should foster growth and innovation by cooperating with innovators and by exploring sandboxes.

Defining the appropriate access of all market participants to personal or non-personal data (subject to the correct safeguards and consent) will become critical for the development and application of future orientated technology solutions, such as AI, DLT or data analytics.

It would be useful for international fora, such as CMPI, to explore the risks and opportunities of future data storage developments, especially with regards to how to ensure there is sufficient competition and ultimately high security and consumer speeds.

EPIF closely monitors the creation of the cybersecurity certification schemes and support the efforts to increase trust and security in products, services and processes that are crucial for the proper functioning of the payment market.

- **Interoperability between Open Banking regimes**

EPIF welcomes the move in various jurisdictions across the world to move to an open payment infrastructure, often referred to as Open Finance or Open Banking. EPIF believes these moves should be encouraged internationally as they will increase competition in the payment market, reflect growing customer preferences for integrated online service solutions and stimulates innovation. The introduction of open payment infrastructure needs to of course comply with the respective national regulatory regimes and meet the highest security and safety standards.

As jurisdictions explore how to introduce an open payment infrastructure EPIF urges the respective parties to, already now, consider the possibility of international cooperation and coordination. If introduced in a coordinated way and with the possibility for interoperability and cross-border solutions this could help to supplement the existing correspondence banking model with an alternative that would allow different payment service providers to interact with each other directly across borders. This would increase the resilience and efficiency of international payments and adapt the model to 21st Century technology and customer expectations.

- **Access to financial infrastructure:**

At the centre of the effectiveness of both retail and wholesale payments is access to the underlying infrastructure.

EPIF members believe that any legal or practical obstacles that currently prevent the non-bank sector from having direct access to the intra-bank payment system should be removed, subject to meeting the same minimum technical and security requirements. We commend the Bank of England for moving in this direction. In the EU we understand that this would require amending the Settlement Finality Directive.

- **Lack of recognized e-ID solutions**

The lack of cross-border harmonized, secure and reliable, digital identity framework poses a significant barrier to the development of KYC solutions which can be used across national borders. The developments surrounding digital identity verification are one of the most promising uses of RegTech in recent years. Online verification procedures and KYC is far more convenient for users without compromising security. A harmonised online (i.e. non-face-to-face) KYC framework would facilitate the introduction of a truly cross-border financial services market, and markedly reduce the cost of compliance for digital businesses.

A. fast convenient, safe, affordable and transparent payment instruments with pan-European reach and "same as domestic" experience

Instant payments as the new normal

Digitalisation and new technologies have fostered the emergence of innovative players with new payment services offerings, based in particular on instant payment systems and related business models. As these new payment services offerings are mostly domestically focused, the landscape at EU level is very fragmented. In particular, such fragmentation results from:

1. the current levels of adherence to the SEPA Instant Credit Transfer (SCT Inst.) scheme, which vary between Member States (MS);
2. the fact that in some MS instant credit transfers are a premium service while in others they are becoming "a new normal" and
3. the non-interoperability across borders of end-user solutions for instant credit transfers.

At the same time, there is a rapidly rising consumer demand for payment services that work across borders throughout Europe, and that are also faster, cheaper and easier to use.

Question 12. Which of the following measures would in your opinion contribute to the successful roll-out of pan-European payment solutions based on instant credit transfers?

	1 (irrelevant)	2 (rather not relevant)	3 (neutral)	4 (rather relevant)	5 (fully relevant)	N.A.
a. EU legislation making Payment Service Providers' (PSP) adherence to SCT Inst. Scheme mandatory			Neutral			
b. EU legislation mandating the replacement of regular SCT with SCT Inst.			Neutral			
c. EU legislation adding instant credit transfers to the list of services included in the payment account with basic features referred to in Directive 2014/92/EU			Neutral			
d. Development of new payment schemes, for example SEPA Direct Debit Inst. Scheme or QR interoperability scheme			Neutral			
e. Additional standardisation supporting				Rather Relevant		

payments, including standards for technologies used to initiate instant payments, such as QR or others						
f. Other						NA

Please specify what new payment schemes should be developed according to you”

EPIF members are neutral on this issue. Our members normally seek forms of cooperation with all scheme operators. EPIF members support many different payment methods across Europe, reflecting the diverse preferences of European consumers.

The success of instant payments will depend on non-bank PSPs having direct access to the intra bank payments systems.

Please specify what kind of additional standardisation supporting payments should be developed:

EPIF is a member of the ERPB and EPC and supports the work of both the ERPB and the EPC in promoting standardisation.

Please specify what other measures would contribute to the successful roll- out of pan-European payment solutions based on instant credit transfers:

EPIF supports the initiatives by the EU towards instant payments. 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.

We have been involved in the design of the scheme rules and continue to support the work of the EPC. EPIF welcomes the fast evolution of the SCT Inst adherence rate and the growth of SCT Inst volumes of transactions.

Under the current settlement arrangements for SCT Inst, EPIF members can only be indirect members of the TIPS ECB clearing arrangements. This puts the non-bank payment sector at a competitive disadvantage. Access to TIPS rests on our members having access to the system via their own banking relationships. Many of our members are facing the closure of bank accounts as banks reassess their AML/TF policies. The debate around de-risking demonstrates the vulnerability of the non-bank sector unless they can have direct access to TIPS via the intra-bank payment system. This is particularly sensitive given that banks and non-banks are often in open competition. EPIF’s membership will only really benefit from ICT Inst if the Settlement Finality Directive creates the legal framework for non-banks to have direct access to TIPS.

More generally, EPIF welcomes and supports the recent actions taken by the EPC to ensure compliance with the full SEPA reachability requirement stipulated in the “SEPA Regulation” and to actively monitor progress of the take-up of the SCT Inst scheme;

We nonetheless also share the view of the EPC that it is overambitious to expect the SCT Inst scheme to meet the “SEPA Regulation” coverage requirements 5 months ahead of November 2020 which is the deadline set in the exemption granted by the Belgian national competent authority to the EPC in accordance with the “SEPA Regulation”.

Question 13. If adherence to SCT Inst. were to become mandatory for all PSPs that currently adhere to SCT, which of the possible following end-dates should be envisaged?

- ☐ **By end 2021**
- ☐ **By end 2022**
- ☐ **By end 2023**
- ☐ X **Other**
- ☐ **Don’t know / no opinion / not relevant**

Please specify what other end-date should be envisaged if adherence to SCT Inst. were to become mandatory:

Question 13.1 Please explain your answer to question 13:

EPIF believes that the work around making SCT Inst mandatory should align with providing direct access to the infrastructure for non-banks.

EPIF members would welcome a commitment to granting direct access to the payment schemes, clearing and settlement infrastructure for non-bank payment service providers in order to eliminate discrimination and de-risking. Additionally, the transaction value limit on instant payments should be lifted so there is more of an incentive to adopt instant payments.

We also believe that that the EU should focus on further regulatory harmonization for the payment sector. Harmonization would ensure more consistent payment experiences within the EU, which in turn would contribute to the successful rollout of pan-EU solutions – whether based on SCT Inst or regular SCT. For instance, we would welcome making electronic SDD mandates mandatory. This would facilitate the development of pan-EU digital payment solutions by bringing the whole acceptance process for SDD mandates online. Moreover, harmonizing AML rules would also greatly contribute to a more consistent experience for SEPA transactions. Today, while the SEPA schemes apply across the EU, national regulators adopt local, and different, approaches towards anti-money laundering (AML) checks and screenings of cross-border intra-EU transactions.

Question 14. In your opinion, do instant payments pose additional or increased risks (in particular fraud or money laundering) compared to the traditional credit transfers?

- ☐ X **Yes**
- ☐ **No**
- ☐ **Don’t know / no opinion / not relevant**

Question 14.1 If you think instant payments do pose additional or increased risks compared to the traditional credit transfers, please explain your answer:

EPIF notes that there may be a range of practical and legal issues associated with instant payments from cases in Europe where mandating a rapid payment mechanism or settlement times can result in:

- Higher merchant settlement costs to merchants;
- Decreased merchant choices; and a
- Loss of protection consumers expect (e.g. chargeback rights – for alternative payments).

The additional/increased risk lies in the speed. A real-time transaction could only be stopped with a real time-fraud solution and the challenge of false positives has to be taken into consideration.

With an increase on the speed of the payments transfer from 1 day to 10 seconds, it may be more complicated to stop fraudulent transactions and it may be that some exiting fraud mitigation measures become less effective. For this reason PSPs will have to automate and implement additional mitigation/control mechanisms.

PSPs will additionally need to be able to implement risk management measures such as appropriate settlement times to manage risk in high risk sectors.

Experience of bank-to-bank payment methods in Europe shows that awareness amongst customers of the protections in place and how these differ to other payment methods such as cards is vital.

Question 15. As instant payments are by definition fast, they could be seen as aggravating bank runs. Would an ad-hoc stopgap mechanism be useful for emergency situations, for example a mechanism available to banks or competent authorities to prevent instant payments from facilitating faster bank runs, in addition to moratorium powers (moratorium powers are the powers of public authorities to freeze the flow of payments from a bank for a period of time)?

- ☐ X **Yes**
- ☐ **No**
- ☐ **Don't know / no opinion / not relevant**

Question 15.1 If you think an ad-hoc stopgap mechanism would be useful for emergency situations, please explain your answer and specify under which conditions:

Any stopgap mechanism should be activated based on two key criteria: 1/ transaction velocity (i.e. an unusual amount of transactions per hour) and 2/ transaction amount (i.e. a significantly higher amount than average). The mechanism should moreover consider that these two factors may look differently depending on the profile and scope of the payment provider.

Question 16. Taking this into account, what would be generally the most advantageous solutions for EU merchants, other than cash?

☐

Members to provide feedback

- ☐ **Card-based solutions**
- ☐ **SCT Inst.-based**
- ☐ X **solutions Other**
- ☐ **Don't know / no opinion / not relevant**

Please specify what other solution(s) other than cash would be the most advantageous for EU merchants:

The most advantageous payment solution for a merchant depends ultimately on the preference of their customers. This reflects business models (where different types of payment methods offer different benefits) and the widely differing payment preferences of consumers across Europe.

Consumers benefit from more choice and more competition in the market when it comes to payment methods. Alongside cash, card-based and instant payments at point-of-interaction can provide convenient, secure solutions for consumers and merchants.

Card based payments provide a rich functionality. Card payments also incur inherent risk controls, which are reflected in strong rules to protect consumers from fraud or misconduct of merchants.

Instant processing would also be facilitated by card based payments, when single message processing is introduced.

Question 16.1 Please explain your answer to question 16:

Question 17. What is in your view the most important factor(s) for merchants when deciding whether or not to start accepting a new payment method?
Please rate each of the following proposals:

	1 (unimportant)	2 (rather not important)	3 (neutral)	4 (rather important)	5 (fully important)	N. A.
Merchant fee			Neutral			
The proportion of users using that payment methog				Rather important		
Fraud prevention tools/mechanismus				Rather important		
Seamless customer experience (no cumbersone processes affecting the number of users completing the payment)					Fully important	
Reconciliation of transactions				Rather important		
Refund services			Neutral			
Other						NA

Please specify what other important factor(s) you would foresee:

Question 17.1 Please explain your answer to question 17:

Merchants accept a new payment method if it meets their expectations to improve their business. Most important factors for merchants are:

- Ease of integration;
- Seamless customer experience;
- Conversion rates;
- Level of use and number of users; and
- Specific capabilities such as refund services and recurring payments.

All of the factors mentioned are important, but not all factors are important to the same extent for all merchants. The importance strongly depends on the merchant sector and on the size of the merchant. Accordingly, it cannot be ranked by importance.

Question 18. Do you accept SEPA Direct Debit (SDD) payments from residents in other countries?

- ☐ Yes, I accept domestic and foreign SDD payments
- ☐ No, I only accept domestic SDD payments
- ☐ I do not accept SDD payments at all
- ☐ X **Don't know / no opinion / not relevant**

Question 18.1 If you do accept SEPA Direct Debit (SDD) payments from residents in other countries, please explain why:

Some EPIF members receive direct debit instructions, allowing their customers to be billed from their account to pay bills, gym memberships, subscriptions etc. via SDD. Members encounter frequent issues with merchants not accepting non-local IBANs, including national agencies, tax authorities and big telecom companies. We commend the European Commission for taking action against Spain on this particular violation of the SEPA Regulation but the problem is common and not limited to Spain. Continued IBAN discrimination prevents consumers from benefiting from a true Single Market in financial services.

Leveraging on the development of digital identities (digital ID)

The issue of use of digital ID for customer on-boarding is addressed in the digital finance consultation. However as financial services evolve away from traditional face-to-face business towards the digital environment, digital identity solutions that can be relied upon for remote customer authentication become increasingly relevant. PSD2 has introduced "strong customer authentication" (SCA), which imposes strict security requirements for the initiation and

Question 19. Do you see a need for action to be taken at EU level with a view to promoting the development of cross-border compatible digital identity solutions for payment authentication purposes? YES

- ☐ Yes, changes to EU legislation
- ☐ **X Yes, further guidance or development of new standards to facilitate**

cross- border interoperability

- ☐ Yes, another type of action
- ☐ No, I do not see a need for action

Other

- ☐ Don't know / no opinion / not relevant

Please specify what other need(s) for action you would foresee or what other type(s) of action you would recommend:

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. EPIF believes that e-identity is an important element of future payments and its development should be fostered. The lack of a harmonized, EU-wide, secure and reliable, digital identity framework poses a significant barrier to the development of FinTech solutions, particularly those solutions which can be used across national borders.

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 requirement to make the respective national E-IDAS solutions interoperable.

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.

We are also in favour of replication of Nordics countries model where the banks allow third party to access their data in order to simplify the KYC process.

The introduction of a common electronic solution 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 on-boarding, 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 and 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.

Finally, we believe that physical verification's option should be maintained to allow certain types of clients to access financial services, i.e. migrants, unbanked population.

Question 19.1 Please explain your answer to question 19:

See above.

Promoting the diversity of payment options, including cash

Digitalisation has contributed to an increase in non-cash payments. However, a large percentage of daily payment transactions still rely on cash.

Question 20. What are the main factors contributing to a decreasing use of cash in some countries EU countries?

Please rate each of the following factors:

	1 (irrelevant)	2 (rather not relevant)	3 (neutral)	4 (rather relevant)	5 (fully relevant)	N.A.
Conveniecne of paying digitally					Fully relevant	
The increasing importance of e-commerce					Fully relevant	
Contacless payments					Fully relevant	
The shrinking availability of ATMs			Neutral			
The cost of withdrawing cash			Neutral			
Digital wallets				rather relevant		
Cash backs for cards			Neutral			
EU or national Regulation			Rather not relevant			
Other						NA

Please specify which EU or national regulation(s) may contribute to a decreasing use of cash in some countries in the EU:

Please specify what other factor(s) may contribute to a decreasing use of cash in some countries in the EU:

Merchants and customers should have access to a broad choice of payment solutions. There should be room for cash payments, account-based payments, innovative payments but also card payments. Card payments will remain an important element of the overall mix of payment solutions.

Question 21. Do you believe that the EU should consider introducing measures to preserve the access to and acceptance of cash (without prejudice to the limits imposed by Member States for large cash transactions)

- ☐ Yes
- ☐ No
- ☐ X **Don't know / no opinion / not relevant**

Question 21.1 Please explain your answer to question 21:

Customers on average use a number of different modes of payment depending on the context of the transaction: online vs face-to-face, the size of the transaction etc. Overall, the number of transactions is increasing. Despite the rise of new means of payment and the online world, cash payments remain an important part of the overall mix of choices.

In Europe, several Member States are moving towards a cashless economy. EPIF sees the convenience of electronic payments for online shopping, automatic bill paying, and online hotel bookings etc. While many citizens take these frictionless payments for granted, not everyone uses online solutions.

The financial industry should step up to more inclusive innovation and offer consumers solutions regardless of where they live and embrace the complexity of a world where cash and digital payments coexist far into the future.

Question 22. Which of the following measures do you think could be necessary to ensure that cash remains accessible and usable by EU citizens?

Please rate each of the following proposal: Members to provide feedback if needed

	1 (irrelevant)	2 (rather not relevant)	3 (neutal)	4 (rather relevant)	5 (fully relevant)	NA
Promote a sufficient coverage of ATMs in the EU, including in remote areas					Fully relevant	
EU legislation adding 'free-of-charge cash withdrawals' to the list of services included in the "payment account with basic features" referred to in the Payment Accoutns Directive				Rather relevant		
Ensure that cash is always accepted as a means of payment at point of sale					Fully relevant	
Other						NA

Question 22.1 Please specify what other measures would be necessary to ensure that cash remains accessible and usable by EU citizens:

Technology provides tools that could make it easier to prevent and resolve financial inclusion. We suggest that policy makers and regulators should explore the following: user literacy and education, training, proper oversight and regulation, and greater transparency.

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

The current EU legal framework for retail payments includes EMD2 and PSD2. To ensure that both Directives produce their full-intended effects and remain fit for purpose over the next years, the Commission is seeking evidence about:

1. PSD2 implementation and market developments;
2. experience with open banking;
3. adequacy of EMD2 in the light of recent market developments; and
4. prospective developments in the retail payments sphere.

The topic of open banking is also included, from a broader perspective, in the Digital Finance consultation referred above.

PSD2 implementation and market developments

Two years after the entry into force of PSD2 and without prejudice to its future review, it is useful to collect some preliminary feed-back about the effects of PSD2 on the market.

Question 23. Taking into account that experience with PSD2 is so far limited, what would you consider has been the impact of PSD2 in the market so far?

Please rate the following statements:

	1 (strongly disagree)	2 (rather disagree)	3 (neutral)	4 (rather agree)	5 (fully agree)	NA
PSD2 has facilitated access to the market for payment service providers other than banks					Fully agree	
PSD2 has increased					Fully	

competition					agree	
PSD2 has facilitated innovation					Fully agree	
PSD2 has allowed for open banking to develop				Rather agree		
PSDé has increased the level of security for payments					Fully agree	
Others						NA

Please specify what other impact PSD2 had in the market so far:

The PSD has helped to foster the development of a Single Market for non-bank payment services. The success can be measured by the fact that close to 600 PIs have been authorised to provide their services across borders EU wide, alongside 2100 small or 'waived' PIs which only provide their services within one EU country. The PSD is one of the real success stories of the Single Market.

EPIF believes that the passporting regime is one of the main successes of the PSD but equally one of the main areas where there is further room for improvement in the PSD 2.

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.

EPIF's members have invested considerable resources to meet the deadline for completing the implementation of the Strong Customer Authentication (SCA) requirements under PSD2. We would like to acknowledge the pragmatic and flexible approach taken by the EBA and the respective national competent authorities on the timetable for implementation. Our members are working hard to be ready to comply with their legal requirements pertaining to SCA by December 2020.

Together with other partners, EPIF called on the European Commission and the EBA to consider appropriate additional measures and coordination to assist in the smooth transition to SCA in all EU Member States equally. In the light of COVID-19, this should also include the possibility of an at least additional six months for the market to be SCA-ready.

Beyond the cards market, EPIF's members have also highlighted that effective SCA implementation is a key building block to ensuring the smooth functioning of payment initiation service providers and account information service providers, as regulated under PSD2. Access to the underlying customer accounts should be able to rely on one single SCA.

Moreover, we believe that the ERPB can 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.

With reference to the secure communication provision, EPIF welcomes efforts to foster a common understanding in how they should assess the compatibility of APIs against the requirements of the PSD2.

We remain committed to the smooth and effective implementation of SCA along the payment chain and look forward to working with the European Commission. EBA and the National Competent Authorities to make PSD2 implementation a success.

Question 23.1 Please explain your answer to question 23:

EPIF in April 2020 hosted a workshop for a cross-section of stakeholders in card payment markets where the impact of COVID-19 was discussed. Among the attendees were bank and non-bank payment providers, the merchant community, European and international card schemes. Overall, EMV 3DS implementation is progressing across Europe and most PSPs could still be ready by the end of the year. However the COVID-19 crisis has significantly reduced the capacity available to merchants to dedicate to SCA development and implementation. This is particularly the case in sectors such as travel and hospitality, and others which are closed down or hard hit by the COVID-19 lockdown.

The exceptional circumstances of COVID-19 are putting an additional strain on the limited resources for all parties would like to have involved in the payment chain, including, not least merchants. During the pandemic, companies have had to focus their efforts on business continuity, prioritising business critical activities targeted at maintaining stability and supporting consumers though the crisis., Many have had to change their operations to service new and pressing customer needs which, in many cases, includes relaxing their normal business terms. This all requires redeployment of resource to manage this activity and the governance and controls surrounding it. For many merchants, this also has to be delivered by a reduced workforce due to layoffs due to falling revenues and necessary social distancing measures.

Consumers are relying on ecommerce more than ever, and therefore maintaining availability with these increased volumes will be the priority of technical teams. Given the current pressures, merchants cannot accommodate any risk of potential payment disruption. Making technology changes when in crisis mode, with technical teams working remotely, adds significant risk to any deployment which could lead to disruption, confusion and a worse customer experience. This is an unnecessary additional challenge when consumer confidence is at an all-time low, and non-food online sales are already depressed, and may lead to operational overload for already strained call centres.

The payments ecosystem involves a high number of dependencies and parties must work together to implement SCA. The economic constraints place limits on the roll out of SCA technology especially in relation to testing, which is essential to a safe and controlled implementation. Critically, the time lost during lockdown will not be able to be recovered later in the year. Avoiding disruption is even more critical this year as this will coincide with the early stages of economic recovery.

Question 24. The payments market is in constant evolution. Are there any activities which are not currently in the list of payment services of PSD2 and which would raise specific and significant risks not addressed by current legislation?

- X **Yes**
- No
- Don't know / no opinion / not relevant

Question 24.1 Please explain your answer to question 24:

While for now, the market for crypto assets for payment purposes, remains manageable. EPIF believes that crypto assets where used for payment purposes, should additionally also be subject by to the PSD2 or EMD, at the point the crypto assets are converted into conventional (fiat) money.

Policy makers, regulators and supervisors rightly acknowledge that LIBRA would take this to a new scale - both in potential volume and geographical reach. EPIF members are watching these developments with keen interest.

Question 25. PSD2 introduced strong customer authentication to mitigate the risk of fraud or of unauthorised electronic payments. Do you consider that certain new developments regarding fraud (stemming for example from a particular technology, a means of payment or use cases) would require additional mitigating measures to be applied by payment services providers or users?

- Yes
- X **No**
- Don't know / no opinion / not relevant

Question 25.1 Please explain your answer to question 25 and specify if this should be covered by legislation:

Given the current state of implementation of SCA, EPIF members believe it is premature to consider further rules for payment security and SCA. Rather, the Commission should monitor developments on the market and take the time to collect data and evidence ahead of a future review.

In addition, we would urge the Commission to think about payment fraud in a more holistic manner, as part of PSP's overall risk management frameworks and in collaboration with key payments stakeholders. It is no question that fraud typologies evolve over time, as consumer behaviours change, as fraudsters become more sophisticated businesses also improve their risk management systems. As such it is important that PSPs and their customers (merchants) can remain agile and flexible in their security and fraud mitigation measures, to be able to adapt quickly and efficiently to new developments whilst maintaining customer trust.

We therefore recommend a more holistic, principles-based and inclusive approach to payment security that takes into account all the pillars of risk management (not only authentication/identity, but also security, privacy, data management, AML/CTF) and all players in the payment chain (not only PSPs, but also merchants to consumers).

Question 26. Recent developments have highlighted the importance of developing innovative payment solutions. Contactless payments have, in particular, become critical to reduce the spread of viruses.

Do you think that new, innovative payment solutions should be developed?

- ☐ X **Yes**
- ☐ No
- ☐ Don’t know / no opinion / not relevant

Question 26.1 If you answered yes to question 26, please explain your answer:

Innovation is a very important factor in the development of industry competitiveness and user experiences. EPIF believes that innovative payment solutions should be market driven. Authorities should provide for the conditions so that PSPs are in the position to make the necessary investments, and so European merchants and consumers can choose the payment methods they prefer, and which offer a seamless payments experience.

Given that payments are global and there are channels (such as e-commerce) for which borders do not exist, the European authorities should be very careful when considering new regulations, particularly if they are not aligned at the same level with the regulations in other developed markets (which are the main EU competitors).

Question 27. Do you believe in particular that contactless payments (based on cards, mobile apps or other innovative technologies) should be further facilitated?

- ☐ X **Yes**
- ☐ No
- ☐ Don’t know / no opinion / not relevant

Question 27.1 Please explain your answer to question 27.

(Please consider to include the following elements: how would you promote them? For example, would you support an increase of the current ceilings authorised by EU legislation? And do you believe that mitigating measures on fraud and liability should then be also envisaged?):

Generally, we would support the raising of contact less limits.

The use of online (and mobile) payments for in-store purchases is a specific trend that we have seen increase during the COVID crisis. The low-value transaction limit of 30 euro should be increased to match the ceiling to match that of contactless payments. This would promote the use of mobile payments in stores, which would limit physical interactions in times where social distancing rules are in effect.

Additional legislation may not be required to facilitate contactless payments. Innovation is market driven and the payment systems should enable the use of the different form factors in all environments where possible. Therefore, regulation for contactless payment should be focusing on framework conditions (e.g. maximum acceptable fraud rate).

Improving access to payment accounts data under PSD2

Since 14 September 2019, the PSD2 Regulatory Technical Standards on Strong Customer Authentication and Common and Secure Standards of Communication are applicable, which means that account servicing payment service providers (ASPSPs) must have at least one interface available to securely communicate – upon customer consent – with Third-party providers (TPPs) and share customers' payment accounts data. These interfaces can be either a dedicated or an adjusted version of the customer-facing interface. The vast majority of banks in the EU opted for putting in place dedicated interfaces, developing so-called Application Programming Interfaces (APIs). This section will also consider recent experience with APIs.
Some market players have expressed the view that in the migration to new interfaces, the provision of payment initiation and account information services may be less seamless than in the past. Consumer organizations have raised questions with regard to the management of consent under PSD2. The development of so-called "consent dashboards" can, on the one hand, provide a convenient tool for consumers who may easily retrieve the information on the different TPPs to which they granted consent to access their payment account data. On the other hand, such dashboards may raise competition issues.

Question 28. Do you see a need for further action at EU level to ensure that open banking under PSD2 achieves its full potential?

- ☐ **X Yes**
- ☐ No
- ☐ Don't know / no opinion / not relevant

The PSD2 is introducing Open Banking within the EU. EPIF very much welcomes these initiatives. Open Banking is expected to bring greater connectivity between FinTech products. This will benefit and protect consumers and businesses simultaneously.

PSD2 and Open Banking are well balanced by the new General Data Protection Regulation applicable from May 2018 that sets clear expectations on how consumer data is handled, although certain aspects of these overlapping Directives will require reconciliation as they are fully implemented in the next few years.

PSD2 lays out a promising framework, which offers enormous possibility for innovation. However, the Commission must consider whether the promise of the Directive - for merchants, TPPs and consumers - has yet been delivered. The path to delivering an EU-wide Open Banking environment should be outcomes-focused, ensuring harmonised standards, high-quality and reliable APIs, authorisation that works for consumers, and data parity. Looking forward, a balance must be struck to ensure that essential and user friendly functionality is consistently provided through PSD2 mandated interfaces, while offering ASPSPs the opportunity to innovate and offer commercial APIs.

EPIF would welcome if the European Commission were to explore the wider use of Open Banking initiatives within the EU's Single Market. The question now is how the enormous possibilities for innovation, already facilitated by the introduction of the PSD2 and with a strong foundation in the market, can best be built upon for the benefit of merchants, consumers and the EU as a whole.

28.1 If you do see a need for further action at EU level to ensure that open banking under PSD2 achieves its full potential, please rate each of the following proposals: Members to provide further feedback

	1 (irrelevant)	2 (rather not relevant)	3 (neutral)	4 (rather relevant)	5 (fully relevant)	NA
Promote the use of different authentication methods, ensuring that the ASPSPs always offer both a redirection-based and an embedded approach			Neutral			
Promote the development of a scheme involving relevant market players with a view to facilitating the delegation of Strong Customer Authentication to TPPs			Neutral			
Promote the implementation of consent dashboards allowing payment service users to manage the consent to access their data via a single interface					Fully relevant	
Other						NA

Question 28.2 Please specify what other proposal(s) you have:

EPIF is in favour of the continuation of the work on the ERPB SEPA API access scheme that would allow to rapidly address some of the issues that are either requested by some market players and/or could provide additional added value.

Question 29. Do you see a need for further action at EU level promoting the standardisation of dedicated interfaces (e.g. Application Programming Interfaces – APIs) under PSD2?

- ☐ X **Yes**
- ☐ No
- ☐ Don't know / no opinion / not relevant

Question 29.1 Please explain your answer to question 29:

There is currently a lot of fragmentation in the market. We would welcome standardized interfaces to facilitate the provision of efficient, integrated and harmonized PIS/AIS services beyond PSD2 that could be provided in the context of Open Banking.

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

Since the entry into force of EMD2 in 2009, the payments market has evolved considerably. This consultation is an opportunity to obtain feedback from stakeholders with regard to the fitness of the e-money regime in the context of market developments. The aspects related to cryptocurrencies are more specifically addressed in the consultation on crypto-assets including “stablecoins”

Question 30. Do you consider the current authorisation and prudential regime for electronic money institutions (including capital requirements and safeguarding of funds) to be adequate?

- X Yes
- No
- Don’t know / no opinion / not relevant

Question 30.1 Please explain your answer to question 30:

Policy makers should regulate concrete use-cases, but not the technology itself. As digital currencies are deployed in heavily regulated areas like financial services, it is important that governments and regulators have trusted partners to help ensure that regulation strikes the right balance. Regulation should give businesses the clarity they need to operate confidently, while not stifling innovation. PSD2 and EMD2 have been successful. As the payment sector continues to evolve very rapidly, EPIF realises that this places both policymakers and supervisors under continuous pressure as to whether, and how best to bring, new innovations such as crypto exchanges under the EU’s regulatory framework for payment services.

EPIF believes that if crypto-assets are used for payment purposes, then they should additionally also be subject by to the PSD2 or EMD2, at the point crypto assets are converted into conventional (fiat) money.

Should these rules be amended it is important to ensure the existing rules for established payment providers are not reopened unnecessarily.

EPIF believes that the most important policy concern for crypto-assets concerns the use of the assets for criminal payments. As a consequence, it is crucial that crypto-exchanges are in scope for all AML requirements at the point of exchange between fiat money and real assets. The use of crypto assets for criminal payments is not unique to crypto assets, but by design are likely to be attractive until the AML regime framework proves an effective deterrent.

30.2 If you do you not consider the current authorisation and prudential regime adequate, what are most relevant factors as to why the prudential regime for electronic money institutions may not be adequate?

Please rate each of the following proposals

	1 (irrelevant)	2 (rather not relevant)	3 (neutral)	4 (rather relevant)	5 (fully relevant)	N.A.
Imbalance betwee risks and applicable prudential regime						NA
Difficulties in implementing the prudential requirements due to unclear or ambiguous legal requirements						NA
Difficulties in implementing the prudential requirements stemming from practical aspects (e. g. difficulties in obtaining an insurance for the sageguarding of users' funds)						NA
Others						NA

30.3 Please specify what are the other factor(s) make the prudential regime for electronic money institutions not adequate:

Under PSD2 and EMD2, the authorisation regimes for the provision of payment services and the issuance of E-money are distinct. However, a number of provisions that apply to payment institutions apply to electronic money institutions mutatis mutandis.

Question 31. Would you consider it useful to further align the regime for payment institutions and electronic money institutions?

- Yes, the full alignment of the regimes is appropriate
- Yes, but a full alignment is not appropriate because certain aspects cannot be addressed by the same regime
- X **No**
- Don't know / no opinion / not relevant

Question 31.1 Please explain your answer to question 31:

The regimes for payment insitutions and electronic money insitutions are already closely aligned. The existing regime provides an appropriate regulatory framework.

31.2 Please state which differences, if any, between payment institutions and electronic money institutions might require, a different regime:

Payment solutions of the future

As innovation is permanent in the payments sphere, this consultation also considers potential further enhancements to the universe of payment solutions. One of them is the so-called "programmable money", which facilitates the execution of smart contracts (a smart contract is a computer program that runs directly on a blockchain and can control the transfer of crypto-assets based on the set criteria implemented in its code). In the future, the use of smart contracts in a blockchain environment may call for targeted payment solutions facilitating the safe execution of smart contracts in the most efficient way. One of the relevant potential use cases could be the automation of the manufacturing industry (Industry 4.0).

Question 32. Do you see "programmable money" as a promising development to support the needs of the digital economy?

- X Yes
- No
- Don't know / no opinion / not relevant

Question 32.1 If you do see "programmable money" as a promising development to support the needs of the digital economy, how and to what extent, in your views, could EU policies facilitate its safe deployment?

The idea of digital currencies is interesting, but still has to jump through many legal, regulatory and supervisory hurdles. Any new technology should be built on the bedrock of trust, compliance and convenience. Without these components, no innovation in our industry will sustain itself.

Policymakers need to ensure the right framework for competition and the regulatory framework should be outcomes orientated and risk based, and not become overly prescriptive to ensure innovation in the European payments market. Crucially, there is the need to ensure that the regulatory approach is technology neutral. In other words, that the payments industry does not get locked into a particular technology solution, or favours one means of payment over others based on the choice of technology alone.

Policy makers must also ensure that the potential legal, regulatory, privacy and compliance implications are addressed of those new business.

C. Access to safe, efficient and interoperable retail payment systems and other support infrastructures

In Europe, the infrastructure that enables millions of payments every day has undergone significant changes over the last decade, most notably under the umbrella of SEPA. However, some issues remain, such as: ensuring the full interoperability of European payment systems, in particular those processing instant payments and ensuring a level playing field between bank and non-bank payment service providers in the accessibility of payment systems. Furthermore, some Member States have put in place licensing regimes for payment system operators in addition to central bank oversight, while others have not.

Interoperability of instant payments infrastructures

With regard to SCT and SDD, under EU law it is the obligation of operators or, in absence thereof, of the participants in the retail payment systems, to ensure that such systems are technically interoperable with the other retail payment systems.

Question 33. With regard to SCT Inst., do you see a role for the European Commission in facilitating solutions for achieving this interoperability in a cost-efficient way?

- ☐ Yes
- ☐ No
- ☐ X **Don't know / no opinion / not relevant**

Question 33.1 Please explain your answer to question 33:

Given the ERPB's current work on Instant Payments at POOI (Inst@POI), EPIF recommends the Commission to follow this work closely. However, it is too early to assess the outcome of that work.

Ensure a fair and open access to relevant technical infrastructures in relation to payments activity

(This topic is also included, from a broader perspective, in the digital finance consultation).

In some Member States, legislation obliges providers of technical services supporting the provision of payment services to give access to such technical services to all payment service providers.

Question 34. Do you agree with the following statements?

	1 (strongly disagree)	2 (rather disagree)	3 (neutral)	4 (rather agree)	5 (fully agree)	N.A.
Existence of such legislation in only some Member States crates level playing field risks			Neutral			
EU legislation should oblige providers of technical services supporting the provision of payment services to give access to such technical services to all payment service providers				Rather agree		
Mandatory access to such technical services created additional security risks				Rather agree		

Question 34.1 Please explain your answer to question 34:

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

The one challenge for EPIF is that instant payments are account based which does not favour all our members equally. EPIF supports TIPS but members are concerned that the ECB is currently not 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.

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

As regards other payment infrastructures or technological solutions, EPIF believes that payment services providers should have open, fair and non-discriminatory access to payment infrastructure and technology solution based on reasonable terms and conditions.

34.2 If you think that EU legislation should address this issue, please explain under which conditions such access should be given:

EPIF members would like to see the Settlement Finality Directive amended in order to allow its members to have access to the intra-bank payment system as long as they comply with the ECB requirements.

The example of the UK might be illustrative. In the UK the trigger to opening the system to non-banks was the launch of the real time system. So as to open up direct access to Faster Payment, the relevant regulators had to work collaboratively to develop a framework that would promote competition (PSR), ensure financial stability (BoE) and allow adequate supervisory oversight (FCA). There were four key areas of change required to implement this framework:

1. Legal changes: Payment Institutions and Electronic Money Institutions had to be added to the list of regulated entities covered by the protections of the Settlement Finality Regulations, which is required for all users of major UK payment systems.
2. Operational changes: Further provisions and changes were made to PSD2 to enable effective safeguarding of client funds being settled across RTGS. Without this, smaller institutions, without their own capital to prefund transactions, would not have been able to become direct participants.
3. Regulatory and supervisory changes - The Banking Act in the UK had been amended to expand HM Treasury's powers to give the BoE the ability to supervise any relevant payments systems if they ultimately grow large enough to pose a systemic threat. The FCA also had to ensure closer supervisory relationships with those non-bank PSPs that chose to become direct participants.
4. Payment system rule changes – The retail interbank payment systems in the UK had to review their eligibility criteria to ensure all PSPs, including non-banks can become members.

Securing the necessary legal changes was the key catalyst to enabling the success of this policy initiative.

Facilitating access to payments infrastructures

In a competitive retail payments market, banks, payment and e-money institutions compete in the provision of payment services to end users. In order to provide payment services, payment service providers generally need to get direct or indirect access to payment systems to execute payment transactions. Whereas banks can access any payment system directly, payment institutions and e-money institutions can only access some payment systems indirectly.

Question 35. Is direct access to all payment systems important for payment institutions and e-money institutions or is indirect participation through a bank sufficient?

- ☐ X **Yes, direct participation should be allowed**
- ☐ No, indirect participation through banks is sufficient
- ☐ Don't know / no opinion / not relevant

Question 35.1 Why do you think direct participation should be allowed?

De-risking: A particular bank can decide whether facilitating indirect access for a non-bank payment provider is within its risk-appetite, which could translate into a refusal of service or requests for changes in the operating model. Non-bank payment providers are operationally reliant on a bank to make payments on their behalf, which means that they incur credit risk where receipts of funds are held with the bank or when the bank has an outage.
There is also a systemic risk that comes with indirect access. Some non-bank payment providers are larger than the bank required to serve them for access to the payment systems. This means that in many markets non-bank PSPs are increasingly clustered around a small number of banks that are large enough or have the risk appetite to offer commercial clearing.

- ☐ X **Because otherwise non-banks are too dependent on banks, which are their direct competitors**
- ☐ X **Because banks restrict access to bank accounts to non-banks providing payment services**
- ☐ X **Because the fees charged by banks are too high**
- ☐ X **Other reasons**

Question 35.2 Please specify the other reason(s) why you think direct participation should be allowed:

See response to Q 34.2.

Question 35.1 Why do you think indirect participation through banks is sufficient?

- ☐ Because the cost of direct participation would be too high
- ☐ Because banks offer indirect access at reasonable conditions
- ☐ Other reasons

Question 35.2 Please specify the other reason(s) why you think indirect participation through banks is sufficient:

EPIF challenges the premise of Questions 35.1 and 35.2.

Please add any relevant information to your answer(s) to question 35 and sub-questions:

Question 36. As several – but not all – Member States have adopted licensing regimes for payment system operators, is there a risk in terms of level playing field, despite the existence of central bank oversight?

EPIF believes that harmonization in terms of rules, processes, timing and territorial coverage are key to ensure a level playing field.

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

While there has been substantial progress towards SEPA, cross-border payments between the EU and other jurisdictions, including remittances, are generally more complex, slow, opaque, inconvenient and costly. According to the World Bank's Remittance Prices Worldwide database, the average cost of sending remittances currently stands at 6.82%. Improving cross-border payments in general, including remittances, has become a global priority and work is being conducted in the framework of international fora such as the Financial Stability Board and the Committee on Payments and Market Infrastructures to find solutions to reduce that cost. The United Nations Sustainable Development goals also include the reduction of remittance costs to less than 3% by 2030. Reducing the costs of cross- border payments in euro should also contribute to enhancing the international role of the euro.

Question 37. Do you see a need for action at EU level on cross-border payments between the EU and other jurisdictions?

- ☐ Yes
- ☐ X **No**
- ☐ Don't know / no opinion / not relevant

Question 37.1 Please explain your answer to question 37:

The Covid-19 crisis has introduced some challenges for the cross-border payments community which is now adapting to a new normal with an important shift to digital transactions.

EPIF's members have been at the forefront of offering competitive cross-border payment solutions to its clients. We have seen that clients not only want access to one payment solution but also will adapt this to the specific use case. Preferably, customers want to have access to their local and familiar payment methods, as well as the ability to pay in their own currency. As a result, the number of payment transaction continues to increase, while the number of payment solutions has also been increasing.

Consumer behaviour is also changing. An increasing part of retailing is now occurring online and on mobile. This trend is likely to further accelerate moving the payment process away from a Point of Sale physical experience to an online and mobile environment. This brings new technological challenges, especially when it comes to cross-border payments. There is however an opportunity to develop new payment solutions and if we look at the evolution of our membership, it is in this area attracting of new members. Similarly, we are seeing a growing market of international digital remittances.

EPIF believes that the tool of price regulation is not the right instrument for stimulating competition. Price regulation, or price caps, generally may only have a desired impact when a market is very concentrated with low levels of innovation across the market. The payments industry is highly competitive and innovation is rife, so these tools would do nothing to improve cross border payments. These tools does not reflect he nature of a payment sector that is undergoing rapid change.

Moreover, too stringent regulation may hamper the appetite of the industry to invest and innovate in the safety and security of the payments system. If payment service providers do not find a viable commercial incentive to further invest in the infrastructure, the whole security of the diverse payment ecosystem could be at risk. Europe needs to stay competitive by innovating and developing new services that enhance security and the customer experience.

EPIF generally supports the use of new technologies within the context of a regulatory level playing field, in particular regarding safety, data privacy and AML requirements. There should also be clear supervisory oversight. Many members are piloting the use of AI or DLT as a technology within their established business models.

We support greater transparency and the provision of information to customers presented in a way that is customer friendly.

The industry continues to face significant challenges, in particular on:

- Restrictions of access by non-bank payment providers to financial infrastructure;
- Growing costs to meet AML and anti-terrorism financing requirements that diverge per country and per region;
- Constant need for policy to adapt to allow continuous innovation in the payment without locking the payments sector into one particular technology; and
- Lack of recognized e-ID solutions

EPIF would like to emphasize that the correspondent banking system has been retracting in recent years adding to costs in the system.

Question 38. Should the Commission play a role (legislative or other) in facilitating cross-border payments between the EU and the rest of the world?

- ☐ Yes
- ☐ No
- ☐ X Don’t know / **no opinion** / not relevant

Question 39. Should the Commission play a role in facilitating remittances, through e.g. cost reduction, improvement of services?

- ☐ Yes
- ☐ No
- ☐ Don't know / no opinion / not relevant

Question 39.1 Please explain your answer to question 39 and specify which role the Commission should play – legislative or non-legislative:

The Commission can play a role in facilitating remittances by encouraging competition in the market and improving the infrastructure on which remittances rely. Transparency in cross-border payments, paired with the rollout of instant payments and direct access for non-banks to the payments system together could work to increase the speed and reduce the cost of remittances.

The Commission should nonetheless recognise that MTOs pricing varies among the thousands of corridors in which they operate because of variance in consumer protection costs, local remittance taxes, market distribution, volume, currency volatility, and other market efficiencies. Additionally, the local region's environment— which includes such factors such as bank access, literacy, regulatory system, and availability of technology and broadband—also influences pricing and availability of services, not to mention consumer needs and preferences.

To further illustrate what goes into the fee, MTOs business-related and regulatory costs also cover, among other things:

- Maintenance of physical locations and/or digital channels for consumers to access the service.
- Fulfilment of all applicable national and/or state regulatory requirements, including putting in place the necessary measures to prevent money laundering and combat foreign terrorism.
- Consumer protection and remediation.
- Currency access and foreign exchange risk.
- Bank account access and international settlement capability.
- The infrastructure to operate – whether telecom, electric, broadband or another network. In Africa, for example, given the continent's generally underdeveloped telecom infrastructure, in many instances MTOs have to develop and invest in providing customized solutions that will enable agent connectivity.
- Technology upgrades.
- Security systems and protocols. Since cash is preferred most by consumers in developing countries, it can be costly to deliver due to limited or restricted availability, value fluctuation and exchange volatility, or extraordinary delivery mechanisms required in emergencies such as through an armoured truck or aircraft. Additionally, the many areas of operation across Africa that are subject to unrest require heightened precautions for cash management and the use of professional specialized security for the physical movement of cash to and from locations.
- Fair worker compensation and programs that benefit and develop employees.
- Contingency plans for crisis situations. Risks can include a country's physical infrastructure being compromised in the event of a disaster, be it a building, transportation fleet, or a region's land line, cellular and/or satellite network. If a disaster does occur, MTOs must be ready to immediately activate a back-up plan so that people in need can continue to send and receive money.
- Community re-investment and involvement.

Access to bank accounts should be protected and made available to all PSPs as per Article 36 of the PSD2. However, EPIF members have seen multiple cases of de-banking within Europe due to blanket top-down decisions by banks to withdraw from servicing PSPs all together. As you know, PIs rely on commercial banks for accounts and access to the payments infrastructure. In the context of an economic crisis, we can expect more de-risking to take place as banks take a stricter and often less innovation-friendly position, leaving only a handful of banks with the risk appetite to serve PIs. This could lead a majority of PIs into relationships with a limited number of banks, presenting a concentration risk. In addition, some non-banks are now larger than many of the banks they rely on for access to the payments systems. De-risking contributes to higher costs and can pose an operational barrier to providing remittances to those who need it. Blanket de-risking must be avoided, but another solution is to reduce PIs' reliance on banks. This can be done by opening up direct access to non-banks in the Settlement Finality Directive.

Question 40. Taking into account that the industry is developing or implementing solutions to facilitate cross-border payments between the EU and other jurisdictions, to what extent would you support the following actions:

	1 (irrelevant)	2 (rather not relevant)	3 (neutral)	4 (rather relevant)	5 (fully relevant)	N.A.
Include in SEPA SCT scheme one-leg credit transfers			Neutral			
Wide adoption by the banking industry of cross-border payment trackers such as SWIFT's Global Payments Initiative			Neutral			
Facilitate linkages between instant payment systems between jurisdictions				Rather relevant		
Support "SEPA-like" experiences at regional level outside the EU and explore possible linkages with SEPA where relevant and feasible			Neutral			
Support and promote the adoption of international standard such as ISO 20022					Fully relevant	
Other						NA

Please specify what other action(s) you would support:

Financial inclusion and improved access to technology by customers is a key in order to facilitate cross border payments.

The IMF in their recent working paper on how remittances enhance financial inclusion in low and middle-income countries (LMICs) and fragile states confirms the positive impact of remittances on financial inclusion.

The MTO industry continually works on improving the access and cost reduction, increased operational efficiencies and introduction of new product and service options and expanded channels. However, MTOs cannot solely solve the issue of access to capital. Financial inclusion is dependent social partners coming together to effectively build the needed infrastructure, address the critical skills gap and shape the best regulatory environment. Financial inclusion can be only achieved by increasing the penetration of mobile phone networks and improving the overall payment infrastructure.

Supporting links between instant payment schemes and supporting 'SEPA-like' systems outside Europe with similar standards could lead to reduced cost and faster settlement to the benefit of European retailers and consumers.

Question 40.1 Please explain your answer to question 40:

EPIF has approached this question from the perspective of the remittance business.

Many of MTOs customers are global migrants: people who move to new countries and send money home regularly. Migrants contribute to the economies of countries they move to with the skills they bring, the taxes they pay, the jobs they fill, and their ability to normalize demographics in communities with aging populations. Besides settling in and contributing to the economies of their adopted countries, migrants are one of the most powerful forces in global economic development by sending money home in the form of remittances.

Apart from providing for basic needs, remittances serve as an engine for development by generating income and jobs and transforming economies. Remittance flows to low- and middle-income countries are larger than official development assistance and more stable than private capital flows.

Question 41. Would establishing linkages between instant payments systems in the EU and other jurisdictions:

- ☐ Reduce the cost of cross-border payments between the EU and other jurisdictions?
- ☐ Increase the costs of cross-border payments between the EU and other jurisdictions?
- ☐ Have no impact on the costs of cross-border payments between the EU and other jurisdictions?
- ☐ X Don't know / **no opinion** / not relevant

Question 41.1 Please explain your answer to question 41:

Many in the developing world, and some even in the developed world, do not have access to the 'digital only' world. An estimated 1.7 billion people globally do not even have access to a bank account. Global online access is still only 53.6% according to Statista, and many of those do not have access to a fast or reliable internet.

To innovate in a truly inclusive way, MTOs adapts in a way where customer demand is rapidly translated into real changes to payment products. Regulation should encourage the development of these new solutions. The key focus should be on providing “hard infrastructure” such as network accessibility, stable electricity sources etc.
It is also important to adapt to the users’ needs and how these are translated in different cultures. EPIF promotes a collaborative engagement by public authorities and migrant groups in host and home countries to gather and disseminate information.

In addition, it would be useful to promote current or new public-private working groups at the national level to improve awareness.