

Summary of EPIF 5th Annual Conference on 18 – 19 November 2020

EPIF's Fifth Annual Conference on 18 and 19 November 2020 brought together over 240 policy-makers and industry participants to share their views and expectations of the European payments sector and to share their expectations for developments in this area over the next five years.

Keynotes and Executive Panels

Speaking on behalf of the European Central Bank, **Fiona van Echelpoel, Deputy Director General Market Infrastructure & Payments** gave an opening keynote speech. She emphasised that as we are confronted with digitalisation in our daily lives, it is not surprising that digitalisation has taken hold of retail payments. The rise and use of cashless payments has been accelerated by Covid-19 with a significant shift from cash to cashless payments. Card payments were the most used electronic means of payments before Covid-19. However, the potential of the use of cards and e-payments has not yet been deployed in the EU as much as in other countries such as the US. Big tech firms provide customer-facing solutions for payments relying on long-standing payment solutions; commonly they rely on cards. On the other hand, Facebook's Libra marked a new departure. For the ECB, the basic premise is "same activity, same risks, same rules". In addition, she reiterated that no global stablecoin project should begin operation until it adequately addresses relevant legal, regulatory, and oversight requirements through appropriate design and by adhering to applicable standards.

On the question whether there will be sufficient **competition in retail payments in future**, Ms van Echelpoel noted that the fragmentation in the EU in the field of payments has allowed global payment service providers to take the lead on payments. To ensure the EU's strategic autonomy in the field of payments, a pan-European retail payment strategy is needed. The key component of that strategy is the deployment of instant payments. While some initiatives have already been launched, there is still room for improvement. A pan-European solution at the point of sale would need to satisfy specific objectives, namely pan-European reach, safety and security, EU branding and global acceptance. Progress is made in this respect.

A **digital euro** could support the digitalisation of the whole economy and strategic autonomy. The ECB noted that private players are best placed to provide front-end solutions. The ECB have examined the implications of issuing a digital euro. A consultation is ongoing to help the ECB make a fully-fledged decision. She also stressed that cash will remain available.

While the **PSD2 has driven innovation** across the EU, big techs are leveraging their customer basis to further expand. Through the EU Retail Payments Strategy, the Commission aims to create the conditions for businesses and consumers to benefit from new payment solutions and decrease the dependency on foreign players.

At the same time, the Eurosystem published in October the **oversight framework** for electronic payment instruments, schemes and arrangements (PISA Framework), which takes into account the changes on the retail payments ecosystem due to innovation, as well as technological and regulatory change. Its scope also includes digital payment tokens such as stablecoins, alongside traditional payment instruments and schemes, and payment arrangements. The PISA Framework follows the principle of proportionality, and aims in particular to set requirements for those entities that play a more significant role in the euro area. The framework is under consultation until end of the year and is expected to be finalised by mid-2021.

Senior executives of the EPIF membership shared their insights on current market developments. Starting with recent developments, the panelists agreed that the Covid-19 pandemic challenged their operations and entailed changes, notably to ensure employee safety. On the payments side, there was big spike in e-commerce demand. While some industries greatly struggled, general retail and digital goods sky-rocketed. In more detail, **Megan Bramlette, Director, EU Payment Acceptance, Amazon Global Payments**, said that needs are evolving and the

industry reacts. Amazon tried to act as fast as possible to respond to its customers' needs. **Mike Benchimol, Chief Operating Officer at Checkout.com**, noted that they tried to help businesses to adapt and support their business model shifts to the new environment. Reflecting on the impact of Covid-19 on SMEs, **Carlos Carriedo, Senior Vice President/General Manager Europe, Global Commercial Services, American Express**, noted that digital payments becoming the new norm during the pandemic has made it very hard for small businesses. In addition to quickly pivoting into accepting payments in the digital space, access to liquidity and cash flow are essential for their survival. In this respect, the continuation of programmes supporting SMEs is critical to ensure they are able to run their operations in a global competitive environment. **Oscar Berglund, Chief Executive Officer at Trustly**, added that the pandemic will have a lasting impact, requiring of merchants to sell online.

With respect to the use of cash during the pandemic, **Massimiliano Alvisini, Chief Executive Officer WUPSIL, Head of Network EUCIS & Africa, Western Union**, said that despite the shift to digital transactions witnessed during the pandemic, many customers continued to transact and operate at level of retail using cash, once the lockdown measures were relaxed. There are different needs for different types of customers, and the latter should have to opportunity to use the services that best suit their needs. **Paulette Rowe, CEO Integrated & Ecommerce Solutions at Paysafe** spoke about the impact of the pandemic on Paysafe's operations. She noted that Paysafe benefited from its diversified portfolio both geographically and from the variety of products served. However, they continued to invest in technology and new products to help their merchants, and also decreased or removed certain fees. Whilst some parts of the merchant population were suffering greatly, other companies were pivoting very fast to new payment methods.

Marius Jurgilas, Member of the Board of the Bank of Lithuania, said that as a result of the pandemic, the notion of contactless gained a completely new meaning. While initially there was a high level of agitation in the Central Bank community, they made sure that all safeguards that are prudent at normal times are still in place. The industry stepped in and delivered where it was needed as well. What is more surprising than the uptake in online payments, is the resilience in the demand for cash. Going forward, the focus will be on business continuity and ensuring that this ecosystem is resilient in all types of situations.

The panellists are overall optimistic about the future of payments. They agreed that more opportunities for innovation and competition could be provided with the right regulation.

Dirk Haubrich, Head of Conduct, Payments and Consumers, European Banking Authority (EBA), participating in a fireside chat, confirmed that there will not be an extension of the strong customer authentication (SCA) deadline and the EBA will not offer any further flexibility. Regarding obstacles to account access, the EBA issued an opinion in June 2020 identifying unlawful obstacles. The EBA has been working with national authorities to make sure that APSPs remove them. In Q1 2021, the EBA will check whether these obstacles have been effectively removed, otherwise, APSPs will be in breach of EU law. With respect to AML, the EBA supports the idea of a single EU supervisor, which the EBA could help incubate until it becomes independent. With regard to the AML risk factor guidelines, he recalled that the EBA is in the process of revising them. The EBA will issue the final guidelines in Q1 2021. He noted that the EBA received many requests for changes on Guideline 18 on AML risk factors that refers to AISP and PISP. However, he clarified that the EBA is not a legislator, therefore they cannot change EU law.

Summary by issues:

Payments

Strategic importance of payments

Eric Ducoulombier, Head of Unit Retail Financial Services, DG FISMA, reiterated that payments have now acquired a strategic nature. He presented the EU Retail Payments Strategy, which envisages actions and initiatives pertaining to competitive and innovative markets, with ideally home-grown payment solutions that could be used on a cross-border basis, as well as accessible and interoperable infrastructures for payments and a more global vision of payments with a reinforced role for the euro.

According to the Bank of Lithuania, payments are a central sovereign issue in any jurisdiction. The role of policymakers and supervisors is to manage the risks. From an industry perspective, payments were always strategic as a critical component to driving innovation. The reason why they are now highlighted is that more people and businesses are dependent on them in a more complex world. The panellists agreed that payments have a critical role to play in the recovery from the pandemic; standards and harmonised regulation across the EU would make it less complex for companies to provide payment services to merchants. Financial inclusion, customer choice, secure payments, affordable services are critical to payments and the direction for the future.

Commission's upcoming actions around payments

There will be a time for a revision of the PSD2 and move to open banking and finance. The Commission will examine whether new risks have emerged and if it should revisit some parts of the PSD2, also against the backdrop of some recent scandals.

Regarding efficient solutions and wide acceptance of digital payment solutions, the Commission observed that digital payments are still not encouraged or technically possible for all, in both the private and public sectors.

On infrastructures, the Commission believes that they are extremely important for instant payments. The reachability of instant payments also depends on interoperability.

Access to infrastructures is not always attractive for banks. Further reflections are needed as to whether other types of service providers should have direct access to infrastructures. Restricted access by some companies to proprietary apps will also need to be examined on whether such practice is compatible with the essence of the single market. Various departments in the Commission will be reflecting on this in the coming months.

Cash is a very important means of payment for millions of European. The Commission acknowledges this and wants to ensure that cash is available and accepted.

Instant Payments

Eric Ducoulombier, Head of Unit Retail Financial Services, DG FISMA, emphasised that instant payments are the flagship initiative of the Retail Payments Strategy and the novelty in this strategy is the political recognition of the importance of instant payments for the EU's strategic objectives. The Commission is reflecting on whether to make Instant payments mandatory. A decision will be made shortly.

The panellists generally support the rolling-out of instant payments to build upon innovative account-based payments. They agreed that work is needed with respect to consumer protection as the possibility of fraud increases; however, it is for regulators to put in place safeguards that will not hamper innovation. The European consumers' organisation pointed out the risk of banks hampering the evolution here by imposing very high fees on instant payments. If this policy continues, consumers will use big techs for instant payments instead. From their perspective, the new real future for instant payments will be instant credit transfers in shops through NFC or QR codes. A lot of work should be done in this area in terms of consumer protection.

The Commission agreed that instant payments should be attractive for consumers and merchants, as well as for banks and PSPs, either using it or offering it. Reconciling all these conditions is challenging; banks should make a legitimate profit but at the same it has to be attractive for consumers.

Etienne Goosse, Director General at the EPC, gave an update on the SEPA Instant Credit Transfer (SCT Inst) scheme. The progress of the scheme has been satisfactory. The vision is to have SCT Inst as the new normal and this is gradually progressing. There are close to 220 scheme participants of PSP across Europe. The SEPA scheme represents more than 70% of PSP. While it is an optional scheme, they aim to achieve "critical mass" first. in the euro area, and later, in the non-euro area. From a business perspective, the performance is also very good with 99% of the transactions going through in less than 5 seconds. This growth and trend will continue but it is up to the market to take this scheme. He said that the EPC is agnostic to solutions, business models and instruments; it is the market who has to choose the instruments.

European Payments Initiative

The panelists generally look at the European Payments Initiative positively. They pointed out the importance of the solution being interoperable with other networks outside the euro area and the servicing component. For the Bank of Lithuania, it would be great if the group of initiators behind it managed to deliver the solution that ticks all the criteria identified, though much is still needed to achieve that.

Open banking

On open banking, the European consumer organisation does not see the need for a third party to be granted access to a bank account when the payment is instant.

From an industry perspective, every transfer has a cost of service provision and KYC; while the price should be fair and transparent, some financial institutions charge horrendous amounts. Experience with open banking shows that there is tension between creating incentives for banks to innovate whilst ensuring it is possible for them to build viable models. The sensation is that an opportunity might have been missed with regard to API. The panellists overall agreed that open banking and e-ID is the right direction for the future.

Contactless payments

Regarding contactless payments, panelists agreed that the EU could learn from other jurisdictions and raise the limit. The Bank of Lithuania concluded that it is the user who will shape the question around the thresholds and that no limit is set in stone. If the level of risk in online transactions is tolerated in a broader context of risks and solving other problems is acceptable, it is good enough for supervisors.

Digital euro: threat or opportunity?

For the Bank of Lithuania, the digital euro is a response to a threat and no longer just an initiative. The euro should have a global role to play and as the EU Retail Payments Strategy plays out, the EU will have the capacity to support this. Behind the scenes, there has been intensive work to ensure the EU is legally and technologically ready to deliver on the digital euro when the time is right. The panellists agreed that this discussion should include considerations regarding the front-end process of e-ID, privacy, and open finance.

Anti-Money Laundering and Terrorism Financing.

Further harmonisation of the EU AML Framework

Raluca Prună, Head of Financial Crime Unit, DG FISMA, European Commission addressed the question on what will be moved from the 5AML Directive into a Regulation. She clarified that the Directive will remain in force and that not everything will be harmonised. There are three main building blocks that will benefit from further harmonisation. These are Customer Due Diligence requirements, the list of obliged entities and administrative sanctions.

Eero Heinäluoma, Member of the European Parliament noted that the identification of the beneficial owner is an important element to address in the new legislation. He agreed on the importance to harmonise CDD requirements and the need for better cooperation between national FIUs and EU officials.

Industry representatives called for further harmonisation on reporting requirements. The Commission confirmed they will harmonise STRs templates and agreed that having common templates and procedures will improve cooperation among FIUs. Ms Pruna underlined that the AML reform will not create a centralised filing system for FIUs. The Commission's ambition is to create a FIUs net to allow them to exchange information in a timely manner and coordinate better in cross-border cases.

The Commission will also establish an EU AML supervisor. This new entity will not replace national supervisors rather. The aim is to create a level of cooperation between the new entity and the national supervisors. This will consist of an extra layer at EU level to make certain that a selected number of obliged entities in the financial sector are under direct supervision. Not all financial sector will be under direct oversight, this will depend on a number of criteria.

Information sharing and Private-Public Partnerships

Western Union called for rules supporting cooperation in information sharing across the EU. Public-private partnerships is the way to go.

Interpol noted that even though their relationship with the private sector is quite good, they still have problems accessing information and getting the whole picture. The new regulation should force banks to follow the money by themselves without any police request.

The use of technology to combat AML

Western Union, pointed out the change that the payments and financial services sector are currently undergoing due to new technologies, products and services, which has been accelerated by the COVID crisis.

PayPal would welcome any technology and innovation that can help addressing AML obligations, such as machine-learning technology and eID solutions.

Mr Heinäluoma recognised the role of Artificial Intelligence and modern techniques to fight these crimes.

Supranational Risk Assessment.

On the Supranational Risk Assessment, **PayPal** underlined that it is important for the Commission to understand that the risk is not the same for all and come up with the right framework to accommodate this risk. They advocated for a principle-based approach that would allow them to show the effectiveness of their AML programs. **Western Union** agreed and noted that the Commission, when assessing the risk, should look at the sector and the specific controls put in place by the respective institution. Otherwise, we will continue seeing de-risking. Taking a principle-based approach over risk approach would allow further innovation.

The Commission assured that it will not put all the entities in the same basket, acknowledging that not all entities are exposed to the same risk.

Digital Finance and Innovation

Jan Ceyskens, Head of the Digital Finance Unit, DG FISMA, noted that Commission wants to make sure that consumers and businesses can benefit from the digital transformation of the financial sector by mitigating its risks.

Ondřej Kovařík, MEP, presented the European Parliament report on Digital Finance for which he is rapporteur. This report contains concrete recommendations for actions addressed to the European Commission. It focuses on three issues: crypto-assets, digital operational resilience and data. While this report is a clear call to promote innovation in the financial sector, the Parliament also stipulates a lot of safeguards that should be ensured, notably with regard to anti-money laundering, data protection and consumers/investors protection. This report also calls for a technology uptake from both the industry and the regulatory/supervisory side. The report on digital finance reflects some key preoccupations, such as consumers' protection when it comes to the use of financial services, and the protection of SMEs when they have to innovate.

The need to boost the financial literacy and digital skills of both businesses and consumers was also underlined by the panel, which found that this issue should be part of the forthcoming regulation. The belief is that such literacy would empower consumers and companies through the use of new types of payment. The panel also pointed out the importance of enhancing cross border activity for industries and consumers, which would then require a

harmonised approach. The panel agreed that the access to digital infrastructures, means of payment and identification schemes are essential to bridge the digital gap in the EU. Emphasis was given to the Covid-19 crisis having increased the digital divide and that part of the population has been left behind. Many customers are not aware of the different possibilities available, and it is essential to close this gap.

Crypto-assets

On crypto-assets, the report calls for the implementation of a new wide-open taxonomy of crypto-assets. Since there is no comprehensive EU legislation on this issue, the European Parliament considers that the first step is to categorise those assets before stepping in regulatory efforts. The question of introducing Central Bank Digital Currencies and global stablecoins (such as Libra) have also been intensively discussed within the Parliament.

Data and Open finance

On data, the discussion is about how to enhance digital financial services in Europe. The European Commission acknowledged that the use of data is important and noted it would like to look beyond the financial sector when it comes to data sharing. Data sharing is indispensable and is where the Commission sees the future of finance.

On open finance, the panelists underlined the importance of the use of data and of data sharing for the future of the financial sector. The European Commission explained that it will first need to assess the PSD2 implementation before engaging more on this topic. The panel also emphasised that open banking requires interoperability and that there will need to be some critical thinking around cross-sectoral data sharing as well as on the inclusion of industrial data.

Digital identity/eID

All panelists agreed that eID is a crucial issue for the digitalisation of the financial sector. The first step would be to put in place a harmonised regulatory framework at EU level and ensuring that any new eID schemes are interoperable. The need to align and promote discussions on these standards around the globe was also highlighted by the panelists. In addition, while public-private-partnerships are seen as beneficial, they will not emerge by themselves thus the European institutions need to step-in and provide investment schemes.

The EU should look at KYC for non-face-to-face transactions. While some Member States reacted fast to facilitate online transactions by approving certain regulation to allow e-KYC, more harmonisation in the area would be beneficial.

Amazon added that to optimise the future payments, there is a need to focus on eID towards payments and identification methods, and to be innovative. It is also important to make sure that people without access to digital tools are not excluded from the system.