European Payment Institutions Federation aisbl

Summary of EPIF 6th Annual Conference on 16 – 17 November 2021

EPIF's Sixth Annual Conference on 16 and 17 November 2021 brought together over 120 policy-makers and industry participants to share their views about the European payments sector and their expectations for developments in this area over the next five years.

Key Takeaways

- The entry of BigTech into the provision of retail payments is fundamentally changing the overall payments ecosystem and is a **key focus of the European Central Bank (ECB).**
- The investigation phase of the digital euro will look at how to minimize the industry investment costs and how to enhance the value proposition of the project. The **ECB is confident that the digital euro will not crowd out private initiatives** given the expansion of the market itself.
- The European Commission believes that safe, instant, frictionless payments should be the new norm in Europe. The C**ommission wants to ensure that instant payments are not a premium service and is dedicated to accelerate its roll-out. An initiative on instant payments is expected in the first half of 2022.**
- The Commission is monitoring closely the work of the European Payments Council to **harmonize the rules for one-leg transactions and to ensure that the EU facilitates low-cost cross-border payments**, including remittances.
- On PSD2, the **Commission has already started the Review process** which will look at supervision, risks, level-playing field, emergence of new actors, interplay with the EMD, consumer protection and fraud reduction.
- The new Commission's **AML Package is focused on prevention** as other instruments exist to prosecute. The aim of the Commission with the new Package is to extend the scope and the list of obliged entities, clarify the rules of customer due diligence and work towards a more granular approach for beneficial ownership provisions.

Keynotes

Speaking on behalf of the European Central Bank (ECB), **Ulrich Bindseil, Director General of the ECB Directorate General Market Operations** shed light on the initiatives of the ECB to support the European Payments Ecosystem. The entry of BigTech into the provision of retail payments is fundamentally changing the overall ecosystem. European sovereignty is important for the ECB and this is reflected in its key initiatives of the Eurosystem's Retail Payments Strategy, the Eurosystem's Cash Strategy, the Digital Euro and the PISA oversight framework.

The Eurosystem's Retail Payments Strategy main priority is to support and foster the development of a pan-European payment solution at the point of interaction. The strategy sets out the criteria to be fulfilled and consists of: (i) pan-European reach and customer experience; (ii) convenience and cost-effectiveness; (iii) global acceptance in the long term; (iv) European brand and governance; and (v) safety and security. The ECB supports the European Payments Initiative (EPI) and recognizes that it fulfills all the criteria established in its Retail Payments Strategy. Should other initiatives comply with the five criteria, the ECB is open to support and endorse them.

The ECB will look at the requirements and technical design of a possible digital euro during the investigation phase. It will look at how to minimize industry investment costs and how to enhance the value proposition of the project. It will also reflect on the interactions with other initiatives. The ECB firmly believes that the digital euro will not crowd out private initiatives given the considerable expansion of the market itself. Moreover, the project will respond to important priorities in the Eurosystem when it comes to the digitalization of the European economy and the decline in the use of cash.

Regarding the new Eurosystem oversight framework (PISA), it will focus on the changes to its scope concerning digital payments tokens (e.g. stablecoins) and payment arrangements. The new framework will be reliant on the principle of proportionality, which has been extensively discussed within the ECB's work streams and will include a set of criteria based on size, market penetration and geographical relevance.

Mairead McGuinness, EU Commissioner for Financial Services, Financial Stability and Capital Markets Union, gave an update on the key priorities for the Commission in the area of payments and how EU rules could respond to changes in the market. The EU payments market is rapidly changing with new players entering the market and a shift in consumer expectations. This is driven by digitalization and innovation, with new technologies making payments more diverse, convenient and secure. Competition is therefore increasing, particularly as a result of BigTech in financial services and the actions of card service providers exploring open banking and Instant Payments. Nevertheless, increased competition is also creating new challenges, which the European Commission is addressing.

On Instant Payments, the Commission believes that safe, instant, frictionless payments should be the new norm in Europe, which requires reaching critical mass. When combined with new add-on services they can support innovative business models. Instant Payments can increase competition and diversify payment options offered to consumers. Given the current level of market concertation this is key. The EU wants to be at the forefront in the area of payments by accelerating the roll out of Instant Payments and the Commission will take the action that is necessary to do so. While the roll out takes place, it is important to ensure that consumers are protected, security is maintained and fraud is reduced. With regards to pricing, she noted that high fees are a significant deterrence for consumers to use Instant Payments and a balanced approach is needed to find a proportional system and ensure that Instant Payments are not a premium service but become the new norm. In the first half of 2022, the Commission will deliver an initiative on Instant Payments whereas work is ongoing on the impact assessment to help in determining what is necessary for the roll out.

The PSD2 gives the legal framework for open banking but the Commission recognizes that there are still some issues to address. The Commission is committed to do everything possible to make sure that the PSD2 review meets its full potential and accounts for key trends in the EU market and to that end will be looking at the scope, how to shift to open finance and how to have a level playing field. A public consultation will be launched in the first quarter of 2022 which will feed into a report to be prepared by the end of 2022 and possibly a legislative proposal.

Efforts are being intensified globally regarding the international aspect of payments. The EU is assessing in particular whether the transparency rules that apply to international transactions need to be improved. For this purpose, the Commission is monitoring closely the work of the European Payments Council (EPC) to harmonize business rules for one-leg transactions and to ensure that EU rules facilitate low cost cross-border payments, including remittances. In this respect, Commissioner McGuinness noted that stablecoins could be an attractive challenge for remittances, as it is likely that stablecoins will become mainstream. Thus it is imperative to ensure that they are adequately and appropriately regulated. The Commission is working closely with the ECB on the possible design and impact of a Digital Euro. A Digital Euro could for instance help private intermediaries in developing truly EU payment solutions using a European Infrastructure and thus supporting Instant Payments.

With regards to the recent Commission AML Package, **Eero Heinäluoma MEP (S&D, FI),** reiterated that there is a need for a more harmonized, effective and proportionate package. The European AML framework has not been fully delivered since the first AML Directive. Between 2010 and 2014, 99% of criminal profits were not confiscated, highlighting that there is a considerable lack of enforcement and implementation of AML rules. The proposal for an AML Rulebook is a key step, which will streamline rules and improve the overall framework. The recent Pandora papers have shown that it is crucial to know who is behind and benefits from transactions. Guaranteeing strong beneficial ownership rules is imperative. Intermediaries play a significant role in this respect to detect suspicious transactions. On the topic of AML, more pragmatic realism and ambition is needed, particularly regarding global coordination.

Executive Panel

Senior executives from EPIF shared their insights on current market developments. Reflecting on the need for a harmonized framework when it comes to the single market, **Sonja Scott, Head of Global Commercial Services, Continental Europe at American Express**, said that the EU is still a long way from creating a single market due to regulatory issues and the different transposition of the AML regulation. Policy makers need to enable real competition and encourage innovation since in the current EU model, support for customers is difficult. Every Member State functions as a different market and requires a different business strategy. It is important to continue to encourage payment innovations and offer customers better conditions. To do so, barriers must be removed through policy actions. She recognized the potential for growth in the market, but competition needs to be made possible by policy makers before that growth can materialize. Although policy makers do not need to be aware of all technical solutions in the payments sector, they are responsible for ensuring more public-private dialogue and providing flexible legislation. **Joan Burkovic, CEO and Co-founder, Bridge**¸ supported the view that innovation is emerging considerably, particularly in the field of open banking. The EU banking infrastructure introduced by the PSD2 is now operational for most banks, resulting in companies being able to offer digital payments to everyone. The combination of payment initiation and information services allows to provide a unique digital payment experience and is enabling better customer experience in opening new bank accounts as the personal data can be transferred more easily between banks. Nevertheless, regulation on open banking is not yet harmonized enough. Further API systems' harmonization will facilitate companies to operate across borders in Europe and the banking sector has an important role to play in the push for harmonization. **Udo Mueller, CEO, Paysafe**, focused his intervention on the accelerated trend of digitalization in payments due to the Covid pandemic. Two trends can be distinguished. Firstly, payments that already existed digitally before the pandemic are increasingly being used. Secondly, payments that were not yet digital have become so since the pandemic. Banks are more active online and this trend will only continue in the future. He also strongly agreed that harmonization of regulation is an important factor for the growth of businesses and to ensure that companies are relevant on the market. In addition, harmonization will make it easier for companies to attract new customers. He concluded that the decline of the traditional banks and the emergence of large technology companies in the payment sector are important factors to take into account in the future of payments. These two factors will drive the future of payments, especially because big techs such as Facebook and Apple are in more direct connection to their customers.

Summary by issues:

Payments

Review of the PSD2

Eric Ducoulombier, Head of Unit Retail Financial Services, DG FISMA, explained that some key elements of the PSD2 took longer than expected to be fully enforced. **The Commission will work on the review of PSD2 throughout the course of next year**, but two important lessons can already be draw. Firstly, in the space of Open Banking, the PSD2 had an important role in the **emergence of fintechs/TPPs. Secondly, the Commission is pleased to see that fraud rates are decreasing. The PSD2 review will be built on the following key pillars:** (i) supervision; (ii) risk; (iii) level playing field; (iv) emergence of new actors; (v) interplay with the E-Money Directive; (vi) consumer protection; and (vii) fraud reduction. **The EBA stresses that, should a possible PSD3 come into effect, delay in compliance should be prevented** and measures might be needed in this respect.

From an industry perspective, transforming business activities to comply with the PSD2 involved a strong effort from IT departments but had positive results, notably on transparency. Nevertheless, the **migration process was costly**, which made it difficult to combine with innovation at the same time.

Fraud prevention and Strong Customer Authentication

The decrease of card fraud coincides with the introduction of SCA, however the EBA is working to determine whether the decrease is due to the introduction. **A discussion paper from the EBA is expected in December 2021/January 2022 assessing data on fraud reporting.** The industry highlighted that the PSD2 indeed decreased the likelihood of fraud.

Instant Payments

The roll-out of Instant Payments is a top priority for the current Commission. **Katarzyna Kobylińska-Hilliard, DG FISMA, European Commission,** stated that the work is on-going on the impact assessment which will evaluate the appropriate actions to accelerate the roll-out in the EU. **The assessment will be focused on the adherence to the scheme, pricing for users, consumer and user reassurance and sanction screening.**

According to the ECB, any solution on Instant Payments will also need to work in a similar way to the current SCT and be interoperable, although these do not represent sufficient conditions. The Commission also recognizes an important role for the ECB regarding the infrastructure and interoperability for the deployment of Instant Payments. The Euro Retail Payments Board (ERPB) is already looking at the technical specifications.

Despite recognizing the benefits from Instant Payments, the industry believes that the value for merchant service providers in Open Banking will result from reconciliation and functionalities. Customer adoption and standardization are also essential conditions to have a successful interoperable Instant Payments system between countries.

Digital Euro

On 1 October, the ECB started its investigation project to create the blueprint for the Digital Euro. The project is intended to complement cash, rather than replace it and is also not envisioned to substitute nor crowd-out private solutions. The ECB would like to rely on other players in the market for the distribution of the digital euro e.g. basic payment services would be free, but there could be other added services to be offered by private entities.

European Payments Initiative

There is still no pan-European solution on payments, which undermines European independence and sovereignty. The European Payments Initiative (EPI) is attempting to **complement the European market with different products and one fully fledged instant payment solution.** For the future, electronic identities and the digital euro can be integrated into the initiative, should there be appetite for it. Intermediate solutions, such as QR-codes are also not excluded as a possibility. European consumers and merchants deem the offering of several choices and catering for different solutions as important and the EPI additionally notes an increasing trend for consumer control.

On the international aspect of payments, the EPI wants to start connecting with other global solutions and go beyond Europe. If a pan-European solution is reached, interest from other international players will come as a positive consequence. The EPI is attempting to build a new ecosystem and public funding is an important step in order to build the acceptance network.

Cross-Border Payments

The targets set out in the Roadmap to Enhance Cross-Border Payments are ambitious but the CPMI is confident they will be implemented within the timeline at the end of 2027. The CPMI will soon make its report public, which will be followed by a public consultation. Work is ongoing with regards to access to payments systems as part of the Building Block 10. The CPMI believes that access is granted to banks, but can also be provided to non-bank service providers. There has been an increased demand for access, although not many jurisdictions have been focused on the issue.

Anti-Money Laundering and Terrorism Financing.

New AML Package

The current AML Framework is based on minimum harmonization which has created fragmentation within the EU as some Member States went beyond the European law. The AML Regulation in the July Commission's Package is a way to remedy fragmentation. The aim of the Commission is to enlarge the scope of the Regulation and the list of obliged entities, clarify the rules of customer due diligence (CDD) and work towards a more granular approach for beneficial ownership provisions. The Member States will be able to go beyond the Single Rulebook if they want to. Nevertheless, the Commission stresses that the **AML Package is more about prevention** whereas other instruments exist to prosecute.

AML Cooperation

The AML Authority (AMLA) is expected to have a great impact on FIUs and contribute to improve supervision. However, FIU to FIU relationships are essential. Only a few provisions are about the cooperation with EUROPOL and they do not take into account all issues that a lack of cooperation could create. There is therefore still room for improvement and efforts to put in the issue of the use of the international financial flows, which are used by criminals in order to avoid the FIUs.

Technology and risk mitigation

New technologies, such as artificial intelligence and machine learning can enable the private sector to evaluate massive amounts of data and contribute to the understanding of what is happening in the sector. New technologies are therefore a solution to identify criminal activities whereas too prescriptive requirements are not, and are also crucial to do an appropriate risk assessment and thus to mitigate the risks. An example is online on-boarding which is more secure than face-to-face on boarding, because technology is deeper and more precise.