EU PAYMENTS

DENIS BEAU
First Deputy Governor - Banque de France

The future of payments – The importance of trust to unlock innovation

The EU has faced exceptional challenges in the last years, and several external developments have affected the payment ecosystem: the COVID pandemic of course, but also the tense geopolitical landscape, which generates new cyber threats. Moreover, new digital players and big technology firms, are now developing new products at an unprecedented pace.

These developments of the payments landscape create new challenges for regulators, supervisors and overseers. As payments go more digital, the EU needs to tackle in particular two main challenges, namely to achieve strategic autonomy of and to maintain confidence in our payment system.

Indeed, while innovation and digitalisation carried out within a controlled framework are delivering means of payments that are more secure, faster, more convenient and user friendly, that have upped our reliance on non-European and unregulated or less regulated entities. At the Banque de France, we consider that central banks have an important role to play to help address those challenges, both through their support to adapted regulatory developments, to appropriate private-sector led initiatives like the EPI one, and in evolving their central bank money services.

Regarding the support to regulatory developments fitted for the digital age, those developments should support innovation while putting in place proper safeguards. This means that they notably should address issues related to the observation that multiple actors, whether they are banks, fintechs, specialised technology providers or bigtechs, now provide regulated and unregulated services across a fragmented payment chain. This implies that regulators need to increase their focus on addressing operational, security and cyber resilience issues along the whole chain, and that all actors providing critical services for the smooth operation and security of payment transactions should be adequately regulated. The legislative proposal on a third Payment Services Directive (PSD3) and associated regulation, which was published by the Commission last June, is a welcomed step forward in this direction. Certain service providers that are currently unregulated like digital wallets and payments gateways, would see their liability regime clarified regarding the critical role they play in the processing of payment transactions.

We should support innovation while putting in place proper safeguards.

Moreover, as our economic lives are increasingly online, payment fraud risk needs to be all the more mitigated. Maintaining trust in payments is critical to fully unlock the potential of innovation, but it cannot be achieved without a regulatory framework that ensures consumers and businesses are adequately protected against the risk of fraud or errors. This is why we welcome that the upcoming instant payments regulation, which will mandate the provision of this service by all payment service providers offering credit transfers, will also require them to match the IBAN and the name of the beneficiary in order to alert the payer of a possible mistake or fraud before the payment is made.

Regarding the adaptation of our central bank money services to the digital age, an important step has been made recently as the Eurosystem launched the preparation phase that will lay the foundations for the potential issuance of a digital euro. The digital euro would be designed as a "digital banknote", displaying the same characteristics as cash: it will be accepted everywhere across the euro area thanks to its legal tender status and it will meet the highest privacy standards. In addition, the digital euro will be usable where cash is not available today: it will allow the use of central bank money in e-commerce and in remote peer-to-peer payments.

Importantly, the digital euro scheme we are developing in conjunction with market stakeholders will enable the emergence of open acceptance standards, fostering convergence and offering common ground on which to build further innovation. EPI and its wallet Wero will be able to take full benefit of it to achieve its pan-European ambition.

The EU payments agenda is rightly flourishing both on the regulatory and operational fronts as payments become more digital. It should reflect our collective ambition to embrace a digital transition that benefits the lives of European consumers and businesses, while still ensuring universal access to a full range of secure payment means, including cash.

FRANÇOIS-LOUIS MICHAUD

Executive Director - European Banking Authority (EBA)

PSD3 and PSR: enhancing competition and combating fraud

In June 2023, the EU Commission published a proposal for a revised Payment Services Directive (PSD3) and a new Payment Services Regulation (PSR). The goal is to build on the momentum of PSD2 in 2016 and enhance the security of retail payments in the EU, the convenience for payment service users, innovation and competition, and ultimately achieve an EU single payment market.

The track record of PSD2 in achieving these objectives is impressive. Competition has intensified, with more than 400 payment and electronic money institutions (PIs/EMIs) now authorised in the EU to provide the new account information (AIS) and payment initiation services (PIS). Full transparency about their operations is provided through a central EBA register, which contains information on 2,000+ PIs and EMIs and 100,000+ agents. It is downloaded 200,000 times each month from 90+ countries, which suggests that firms outside the EU-27 use it to gather intelligence ahead of a potential entry into the EU market.

A higher security level was achieved, primarily through the EBA's Technical Standards on Strong Customer Authentication (SCA). An EBA initial analysis in 2021 indicated a reduction of fraud by 40-60% for payment cards alone, even though several EU countries had not fully implemented the SCA requirements at the time. Fraud data during the first semester of 2023 period are now being collected by the EBA in the context of an analysis it will publish in the 2nd quarter of 2024 which it expects to confirm this trend and show further improvements.

However, innovation also exists in fraud, and other, new attack vectors, such as social engineering fraud have been developing and need to be addressed. Barriers also remain which do not allow the objectives of Open Banking to be fully reached. Some other, interpretative issues with PSD2 did not allow for its objectives to fully materialise, especially as far as security provisions, authorisation and legal definitions are concerned. With this in mind, the EBA response to a Commission Call for Advice on the PSD2 put forward very practical recommendations.

In the Commission's proposals of June 2023, the EBA has particularly welcomed the provisions in the PSR on the strengthening of the security measures to prevent fraud, such as the sharing of fraud-related information between PSPs, the educational initiatives on payment fraud, the clarifications on the application of SCA, and the improvements to SCA accessibility.

EU payment security and competition should continue to progress.

It also worth noting the measures proposed to further advance Open Banking competition objectives which would benefit from a number of measures such as: mandating the use by PSPs of application programming interfaces, specifying the functionalities required of APIs and providing a non-exhaustive list of obstacles, requiring AISPs to perform their own SCA instead of the account provider, and requiring permission dashboards for consumers. Finally, we welcome the proposals on the calculation of own funds, improving the access of PIs to payment systems, and the strengthened provisions on enforcement.

Discussions will continue during the Belgian Presidency. This will provide opportunities to further reflect son some of the key features of fraud prevention, such as the design of Strong Customer authentication (SCA) or the 'fall-back' access.

In terms of consumer protection, it will be important to clearly delineate between authorised and non-authorised transactions and on the concept of gross negligence, which determines the extent to which it is the consumer or the PSP that bears the financial burden in case of fraud. Similarly, discussions in the coming months will probably focus the delineation between payment and e-money services, the definitions of 'payment account', 'payment instrument' and 'agent' (PSD3 and PSR), local substance requirements (PSD3), the interplay between PSD3/PSR and MiCAR, and the allocation of product intervention powers under PSR.

The EBA is fully committed to the objectives of reducing fraud and enhancing competition, and stands ready to assist in the finalisation of this important legislative file.

JEAN DIACONO

Vice President & Manager, Global Merchant Services Continental Europe - American Express

Navigating the new landscape of European payments: the Role of PSD3 and PSR

In 2023, the European Commission took a significant step to further harmonise the European payments ecosystem with the introduction of the Third Payment Services Directive (PSD3) and – for the first time – a Regulation in the form of the Payment Services Regulation (PSR). These regulatory changes, coming five years after the entry into force of PSD2, promise to enhance integration, efficiency, and innovation in payments. They aim to balance cost efficiency with fair competition and push for technological advancements.

With these proposed regulatory changes as the backdrop, the European retail payments market is navigating a dynamic era of transformation and innovation. This market, traditionally dominated by cash payments, is increasingly embracing digital payments. This transition, however, is not just about phasing out cash; it is also about expanding and diversifying payment options in a consumer-centric manner. This approach ensures that the move towards a cashless society is inclusive, offering a panoply of payment choices to meet diverse consumer needs.

As the negotiations on the Payment Services Package unfold, it is now worth taking a look at what issues the PSD3/PSR aim to tackle and the policy changes necessary to achieve the principal goal of EU legislators: a true pan-European single market for payments.

When introduced, PSD2 was a game-changer, especially in fostering an open banking framework, but it fell short in creating a more competitive European market. PSD3/PSR seeks to build on this by levelling the playing field between banks and non-bank payment actors, improving fraud prevention, and enhancing open banking and Strong Customer Authentication (SCA) protocols. There are, however, concerns about potential disadvantages for smaller players such as Amex. To achieve stronger competition in the European payments ecosystem, a number of changes to the proposed Payments Package need to be made.

For instance, the fragmentation of the surcharging rules across Member States has been an unfortunate consequence of PSD2. While 18 Member States have fully banned the practice of charging consumers for the simple act of paying, the remaining Member States still allow the practice for smaller card schemes such as Amex and other payment instruments not covered by the Interchange Fee Regulation. Today, we find that this only partial surcharging ban has discouraged innovation by new market entrants with alternative business models, resulting in fewer options for consumers, and leaving dominant players in a position to increase prices.

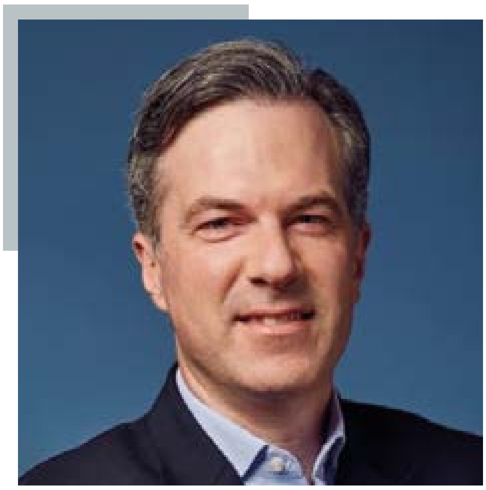
A concerted effort is now needed to achieve a full EU-wide ban on surcharging.

As such, a concerted effort is now needed to achieve a full EU-wide ban on surcharging for all payment instruments. This will help protect consumer rights, ensure a better customer experience, encourage merchant transparency, end abusive practices, and create a level playing field among payment service providers (PSPs).

Another area of focus should be the ability for PSPs to operate on a pan-European basis, making better use of passporting rights. In the context of passporting, we continue to call for a change to the rules to allow payment institutions (PIs) to issue credit on a pan-European basis beyond the existing 12-month credit term limitation in Article 10(4) PSD3. This restriction only applies to PIs and not to banks, which poses a competitive disadvantage and is contrary to fundamental principles that underpin the single market. Indeed, this provision makes it impossible for Amex and other PIs to offer credit cards across the single market in competition with bank card issuers, which de facto is pushing these non-bank players to obtain a banking license in order operate on a cross-border basis. Removing this unnecessary and unwarranted burden on non-banks would therefore improve competition in the European payments market and bring more options to consumers, especially in smaller Member States.

The proposed PSR also brings forth essential changes in Strong Customer Authentication (SCA), fraud prevention, and transaction risk analysis. Amex appreciates the revised approach to SCA, advocating for a risk-based and outcome-oriented strategy. However, we continue to call on co-legislators to explicitly allow the use of behavioural biometrics in authenticating consumers as part of the 'inherence' factor of SCA. This would enable easier authentication of payments, particularly for less technologically savvy customers, while keeping very high safety levels.

As the European payment ecosystem evolves, PSD3 and PSR will play key roles in this transformation, aligning with goals of market integration, innovation, and security. Effective collaboration between the industry and regulators is, therefore, essential to ensure that these changes benefit not only the current market but also prepare for future challenges and opportunities.



RICHARD NASH
Vice President, Government Relations - PayPal

Enabling safe and secure frictionless payment experiences in the EU

The European payments market is dynamic and competitive. Europeans enjoy a variety of payment methods available across the European Union that are both secure and fast. The benefits of the SEPA project, turning previously fragmented national markets into a single market for payments, cannot be understated. Neither can the positive impact of the PSD1 and PSD2 in creating a single rulebook for payments, making domestic and cross-border payments in the EU more efficient, secure, and more transparent. The proposed PSD3/PSR package continues to finetune this single rulebook, to level the playing field and to foster the development of innovative payment services.

Another driving force contributing to the EU market's dynamism and competitiveness is the customer: the way they shop, buy, and spend. The pandemic increased the use of digital payments, both online and mobile payments, including in-store. Accelerated technological development has made it possible to meet these evolving customer needs, leading to new and more diversified payments products and services. Digital wallets are among the leading payment services favored by consumers for instance.

Customers expect payments to be safe, secure, fast, and seamless. They also expect choice: the ability to choose their preferred payment method and their preferred experience, whether that is with more friction, or less, and which may even vary depending on the amount of the transaction. And more choice for customers leads to better experiences for merchants, ultimately promoting digital growth and enabling digital trade. A payment provider's ability to provide safe and secure frictionless payment experiences, in any context and on any device, will remain a key differentiator in this increasingly competitive market.

It is therefore important that legislation appropriately considers these evolving consumer expectations, as well as the concurrent technological innovation driven by payment firms to meet them. We believe that onboarding and authentication journeys are essential to providing great customer experiences. An enabling regulatory framework that is built on an outcome- and risk-based approach, would facilitate current and future innovation, and enable payment providers to meet customer expectations of secure, fast and frictionless payments.

Innovation is enabling secure experiences that are also convenient and seamless for customers.

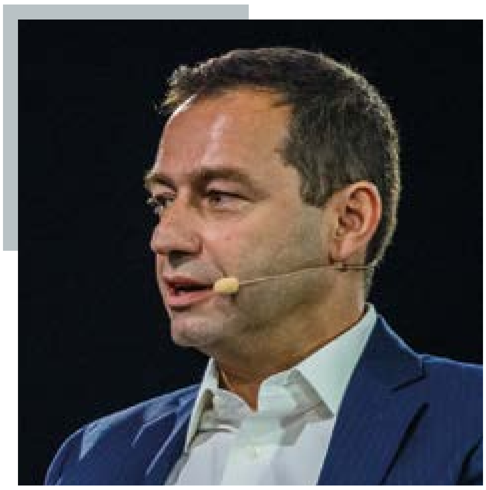
The draft PSR's focus on more accessible, data-driven and innovative SCA solutions, that can be performed using a single device, will be key to making authentication services more innovative, inclusive, and competitive. The regulation should embrace innovative technologies that enable more convenient experiences, such as device recognition, (behavioral) biometrics, and other data-driven methods, provided that they can deliver equally high levels of security. Importantly, the regulatory approach to SCA should be future-proof: adaptable to emerging security infrastructure and technologies that enable secure and seamless experiences. An outcome-based approach – with security and convenience at its core – would permit the use of emerging technologies to meet SCA requirements, rather than maintaining prescriptive solutions based on outdated technologies.

A good example is FIDO's passkey technology, which has the potential to revolutionize the future of payments across the world, including in the European Union. Based on cryptographic keys and device unlock mechanisms (such as biometric readers), passkey technology offers a secure and convenient means of authentication, removing the weaknesses of traditional password-based methods. This makes online purchases easier for consumers and removes checkout friction for merchants. As the landscape evolves, passkey technology could usher in a new era of secure and convenient payment experiences.

A risk- and outcomes-based approach to authentication in the PSR would give payment providers the flexibility to innovate to respond to evolving security threats, whilst also meeting the complex and diverse needs of customers. It would permit an appropriate balance between ensuring high levels of security and consumer protection, whilst enabling convenient customer experiences using innovative technologies. This would foster more competition and allow innovative payment providers to continue investing in customer-focused solutions.

PayPal's experience is that providing secure payment services is fundamental to build and maintain consumer trust, especially as we continue to drive cross-border, including intra-EU, commerce for SMEs and consumers.

Technological innovation is enabling secure experiences that are also convenient and seamless for customers. It would be a lost opportunity should the review of the PSR not embrace the opportunities this provides.



MASSIMILIANO ALVISINI
Senior Vice President Europe CIS & Africa - Western Union

The way forward for a Single European Payments Market

The European payments market has seen rapid change over the last few years, facing economic and social challenges requiring timely and innovative responses to foster growth, cohesion and employment. With customers demanding quick, easy-to-use and, importantly, safe ways to pay and transfer money, the sector has adapted, driven by technological developments. This article explores some of the recent achievements of and challenges faced by the payments sector and offers potential solutions.

At Western Union, we are in the unique position of operating in all European markets – many for over 30 years. For us, providing customers with flexibility and ensuring their trust is a key priority. We believe the payments sector would benefit from a move towards greater harmonization. We are pleased to see the proposal by the European Commission for a Payment Services Regulation (PSR) underpinning the Third Payment Services Directive (PSD3). A single set of rules across the EU will allow payment service providers (PSPs) with a presence in multiple European markets to operate across borders more easily, contributing to the development of a truly Single Market in payments.

Other areas that could be improved to increase efficiencies and legal certainty in the European payments markets include:

- Non-bank PSPs in the EU, and particularly the remittances sector, still face significant challenges with unwarranted de-risking. This is particularly acute in certain Member States, leaving entire sectors unable to provide a stable product offering to their customers. The current proposal still leaves several loopholes, such as potential excessive compliance costs used a ground to refuse access.

- Another important topic is the provision of transparent information to money transfer consumers transfers, including regarding fees and currency conversion. This is something that Western Union strongly supports in a way that ensures that the information provided supports users' needs. The PSR aims to enhance transparency, fairness, and consumer protection in payment services. However, proposals to display FX margin may not improve consumers' ability to make an informed choice and could even be confusing. Similarly, proposals to adopt national central bank reference rates may not be appropriate for this type of requirement, as they may not consistently provide reference rates for all global currencies that are accessible to market participants. An independent benchmark rate may be more appropriate to use.

Ensuring a level-playing field for all market players.

- Lengthy and divergent registration periods for agents of service providers can create significant business and operational challenges for the timely provision of services to consumers can be easily shortened. A more harmonised process with shorter registration periods would address this challenge.

- IBAN discrimination constitutes another challenge to a Single Market. It is already illegal for payment service providers to discriminate between domestic IBANs and IBANs in any other EU Member State, when making payments. However, our experience is that country-specific interpretations and practices vary greatly, in effect leading to IBAN discrimination. Enhancing the requirements and penalties for non-compliance and expanding requirements to the non-Euro zone could significantly remove additional friction for all EU consumers and businesses and ensure fair access across the EU Single Market.

When reviewing proposed changes to existing payment rules within the context of growing digital transactions, such as those proposed in the PSD3/PSR and the Instant Payments Regulation, it is worth bearing in mind EU policy objectives to facilitate financial inclusion. While these proposals are necessary to follow the shift towards more digital and mobile-based payments and remittances, many corridors remain significantly cash-based. It is imperative that the EU rules are also designed in a way that ensures the ongoing provision of cash-based financial services without onerous and complex requirements.

With all the changes taking place at the European level, it is also important to assess how the Union is integrated into the global payments landscape. Western Union is supportive of the EU's objectives to adopt open strategic autonomy that aims to enhance Europe's self-sufficiency and independence in critical areas while, importantly, staying open to global trade and cooperation. An alignment of EU actions with the efforts carried out at the G20 level with the roadmap on cross-border payments is therefore imperative.

Every year, Western Union serves around 120 million customers globally, many in the European Union and including some of our biggest markets. As a leading money transfer player, we are acutely aware of our responsibility to our customers, and to the wider market. We are committed to contributing to a Single Market for payments, meeting the European objectives of open strategic autonomy, innovation and more secure payment transactions.