Retail payment priorities

1. Retail payments are complex, which has required public sector intervention

1.1. One ECB priority is to remedy the dependence on international payment companies in the EU and the inability of European solutions to have a pan-European reach

The Chair recalled that the EU market is special in view of its multi-jurisdictional nature and that in any case every payment ecosystem can end in different equilibria with strong path dependency. Public policy interest in an efficient outcome is high and can lead to regulation, or provision of infrastructure and services by central banks, such as payment systems or retail central bank digital coin (CBDC). In the last two decades cards have emerged as the dominant electronic payment solution, and e commerce has been a fast-growing phenomenon. There has been a rise in e-money and the instant payment revolution; it is a revolution of the settlement layer, but when combined with a front end revolution it can also lead to payment instruments such as the European Payments Initiative (EPI)'s Wero.

The ECB's retail payment strategy (RPS) puts significant emphasis on the desirability of a European-governed, pan European payment instrument at the point of interaction (POI), that could be based on instant payments as a settlement layer.

1.2. Regulation has proved essential, and innovation remains strong

A Central Bank official stated that the most important thing that happened in the EU for cards was the Interchange Fee Regulation (IFR) because it brought more competition. From a global perspective the EU is doing well when it comes to the costs of card payments, but there are new alternative ways of paying that may be more efficient. The Czech National Bank is trying to introduce the instant payments infrastructure, and in Czechia about 33% of all credit transfers are instant. Hungary has taken an unusual way of introducing instant payments, with mandatory acceptance. Czechia is the leader in contactless and has about 50% tokenisation.

The Payment Services Directive (PSD2) is also important. Strong Customer Authentication (SCA) was a success, but fraud is evolving. Eliminating fraud is a goal that is almost impossible to achieve. PSD has also led to modernisation in the backends of banks. As a result of the PSD2 application programming interfaces (APIs) Czechia received a Scandinavian style bank ID that helped to move the country forward.

An official stated that the instant payment infrastructure is a significant achievement, and European customers will be able to use it from 2025. Hungary has used it since 2020 and has had positive experiences. From 1 February 2024 payment service providers in Hungary have been obliged to accept payment requests in that system. QR code payments have been trialled from 1 September 2024, and the QR-code-based payment using the Single Euro Payments Area (SEPA) Instant Credit Transfer Scheme (SCT Inst) will be owned by the banks, not the central bank.

The Chair noted that if the last five years have been so dynamic, it means that innovation and competition are alive in principle, which is positive.

An industry representative stated that their company is global and is a pan-European player. In some countries it has a physical presence and in others it operates on a cross-border basis. It also operates as both an issuer and an acquirer. From a regulatory perspective there has been good improvement, but more regulation is coming.

In terms of innovation Europe is leading the way in areas like open banking, new players, new models and new use cases that have been exported to other places in the world. Something similar might happen with SCA. Behavioural biometrics could be leveraged as a new means for protecting customers whilst improving the customer journey. Europe is crowded when it comes to payment institutions and banks, with around 5,000 players in the market, but the relative shares of the players has not significant changed.

Payment institutions can now get access to banking rails for instant payments, which is a big win and a good example of fostering competition. Another aspect that their company is proposing as part of the Payment Services Regulation (PSR) is the elimination of the current limitation that payment institutions have for cross-border credit beyond 12 months.

2. Technology and Covid are among the many drivers of e-commerce and the development of electronic payments, and vulnerable citizens and fraud remain a focus

An industry representative explained that their organisation has 10 million active clients who are representative of the entire population of its country and notes that user habits have changed because of many technological innovations and Covid. Electronic payments are expected to double from the end of 2022 until the end of 2027. The use of cash is of course decreasing but remains important for vulnerable clients. Indeed, having seamless payments could be harmful for more fragile clients, because it makes it more difficult for them to closely manage their budget. There are more card payments in a number of countries, which will accelerate in future years with more wallet payments. Wallet is clearly the future of payments, as younger people are more willing to use a wallet compared to a card.

An official noted that Hungarians frequently use the instant payment system and instant payment services. More than 40% of transactions are now outside of banking hours. Online fraud is a significant problem in Hungary, with €60 million lost due to online fraud in 2023. Hungary's main priority is to tackle online fraud and to establish a system that emphasises prevention and solving the crime as soon as possible.

An industry representative stated that fraud is a competition between fraudsters and banks. New tools like the European Digital Identity (EuDI) Regulation, fingerprints, face shape and voice prove there are a number of ways to make wallet more secure than cards. If banks want clients to trust payment systems and use them then the latter need to be given trust. Innovation without operational resilience or security for customers will not work, as there is a huge diversity of client needs.

An industry representative highlighted that caution is needed about the future with regard to fraud and cybersecurity, as AI can be used by both bad actors and good ones.

An industry representative agreed that stopping fraud has greatly improved through SCA, but the implementation cost of the payment supply chain has been significant. The speed at which fraudsters evolve is much faster than the time it takes to analyse, legislate and enforce. Outcome-based regulations for specific targets need to be considered, but there also need to be customer experience targets.

3. As a result of leveraging regulation, technology and payment ecosystems, card payments have quickly evolved in order to combine improved customer experience and security

The Chair noted that worry about fraud has been a common denominator of all panel members so far.

An industry representative observed that payment has changed more in the last five years than in the last 50 years. The contactless payment revolution went smoothly throughout Europe and the consumer user experience (UX) is the best ever in terms of face-to-face payments. Hungary is the country with the second highest saturation of contactless payments worldwide, and 99.3% of all Hungarian card transactions from the industry representative's company are contactless.

Visa is trying to use the learnings from contactless migration to implement Click to Pay in Europe, which is a continuation of the scheme-agnostic standard EMV Secure Remote Commerce (SRC). Everything is underpinned by the token revolution, as technology helps to replace sensitive card credentials with tokens. Token is a base for Click to Pay, mobile payments, further development and acceptance. Small and medium enterprises (SMEs) across Europe are a very large part of the economy, and due to technological possibilities, they can now accept cards online and in person. The mobile phone is becoming both a payment tool and a tool of how to be paid. One billion small, nano and micro businesses around the world will imminently start card acceptance or payment acceptance.

The most important part is to have a choice, which is different in different parts of Europe. In Central and Eastern Europe (CEE) people need to be able to choose either cash or digital payments. Customers can start their digital journey with many different means of payments that are emerging in every single country, such as wallets and account-to-account payments. The most important part is to convince consumers that it is an easy and secure way to pay, but cash should still be a choice. The change that has happened has been driven by three major factors: the entire ecosystem working together to make it happen, the regulation being very well orchestrated, and technology development being in its best ever space.

4. The EU still lacks homegrown pan EU payment instrument

An industry representative stated that the EU has made significant progress on the efficiency of retail payments, SEPA and streamlined cross-border transactions. Instant payments have the potential to enhance speed and reliability. The EU also ranks well in the diversity of payment options. Account to account based technology has led to the emergence of several payment options in recent years, mostly country specific. PSD2 and SCA have helped to reduce fraud.

There is still far to go to enable more competition and choice. The EU is missing a homegrown, pan EU payment method. The lack of interoperability in a domestic payment method is fragmenting the industry, which creates lower competition. More work is needed to bring those alternatives to the right level. There are several resiliency-of-platform issues and key features for customers who want to pay with subscriptions. Logic needs to be fixed to help customers transact when they face a decline.

5. Priorities for the regulation going forward

5.1. Many regulations are already on the table which requires focus on implementation and checking mutual consistency and effectiveness

A Central Bank official stated that the Czech National Bank is also a payment services provider (PSP) and has to comply with all European payment regulations. The discussion of new regulations is tempered by the experience with the currently implemented regulations. Many new issues are on the table, and it is time for implementation. The EU is trying to scale successful national level models through European regulation to create pan European solutions, but it did not work with PSD2, and it will not work with PSD3 or Instant Payment Regulation (IPR).

Czechia has a solution for payee verification that is much more user-friendly than the EU suggestions. If a mobile proxy payment is done, then the name of the recipient is visible. Czechia learned from Singapore, as Singapore is much better from a user perspective. What is not encouraging is that PSD3 is forcing Czech banks to implement something for domestic payments that is substandard to what they already have.

An official agreed that something needs to be done about over-regulation.

5.2. Fraud remains a challenge. Key success factors include balancing customer experience, privacy and security, and enabling attractive business models. Regulatory stability and simplicity are needed.

A Central Bank official stated that fraud is a big topic and addressing it has to be a joint effort. More stakeholders need to be involved. There is the potential to voluntarily come up with a solution, knowing that regulation could subsequently come if it does not work.

An official highlighted that online fraud is an area where intervention is needed. On 1 August 2024 Hungary modified the law to allow communication between payment service providers. If a client suspects that there is a fraudulent action they can call their bank, and by law the bank will be able to communicate with the destination bank where the money went. Once the money is located it will be frozen until the investigation is completed, and if it is proven that the transaction was fraudulent then it will be transferred back to the client. The main goal of Hungary's EU presidency is tackling online fraud, with a significant emphasis on prevention.

An official added that, regarding the PSP, Hungary is working on a comprehensive solution that will respond to the increasing volume of fraud. The solution will be a consumer-friendly, fair and justifiable solution for all parties involved in the transaction. The most important thing is to raise prevention to a robust level so fraud can be reduced to a very low level.

An industry representative highlighted that the priority for Europe and worldwide is the resilience of the entire economy and payment systems. Cooperation as an ecosystem is needed, because if fraud is simplified in a certain space, then fraudsters will move to it. The industry representative's company has invested around $10 billion in the cybersecurity space worldwide in the last five years.

The Chair noted that multiple panellists have mentioned over-regulation as an issue.

An industry representative stated that their company is happy to work with any regulator. The first opportunity is to focus on security, but not at the expense of customer experience. If efforts are dedicated to fighting fraud there are fewer reasons for legitimate customers to be impacted. Outcome-based regulations could be attempted, such as authentication success rates, timeouts and latency rates. Another opportunity is competition and choice. Targets can bring the right resiliency and availability metrics.

A third opportunity relates to two upcoming regulations, the digital identity wallet and the digital euro, which are going to force many customer journeys to be redesigned. Regarding the digital euro, some things can be done to maximise privacy with a self-custody wallet. The digital euro is uniquely featured to bring conditional payments, but if those points are not favoured and compromised for then it is not going to help customers' adoption. If a remuneration model is not created that incentivises parties to invest in value-added services and replicate four-party models when there are not four parties anymore then it will not work.

An industry representative highlighted the need for stability and simplification of regulation, as the focus needs to be on implementation rather than discussion. A client solution is needed that is practical, fluid and safe. It is vital to not only focus on niche clients, because banks still need to take people on board who are less familiar and less willing to use the most digital solution. A digital wallet like Wero is a very relevant solution because it is a pan-European initiative and meets both customers and merchants' expectations and new uses. Such an initiative must continue to be supported by the EU.

An industry representative noted that more time needs to be spent on the implementation of regulation that is already in place to give all players space to do it. Small players sometimes have a challenge with implementation, but large companies also have much to do such as their business goals, compliance, regulations and development. Regulation always comes first because it is an obligation. The regulator needs to understand that good, future-proof regulation is sometimes 'less is more'. Technology and development is accelerating, and it is not easy to design future-proof regulation if the ecosystem is changing very quickly. Close cooperation with the business side and partnership with the businesses inside of that ecosystem is extremely important.

The Chair highlighted the work of the Euro Retail Payments Board (ERPB) on QR standards and on the SEPA Payment Account Access scheme and invited everybody to use them.

5.3. Achieving effective consistency of the rules of retail payments remains a top priority

An industry representative stated that the concept of harmonisation in Europe is very important, both in terms of cooperation between players and between regulators and supervisors. From a pan-European perspective applying the same rules in different countries sometimes means that the interpretation is not the same. Harmonisation needs to be a key objective in the upcoming regulation. A surcharge ban is happening in many countries in Europe but not all of them. Other issues could focus on open banking and the Financial Data Access (FiDA) Regulation.

6. Despite comprehensive and constant work on payments and digitalisation the EU fails to define and manage its strategic autonomy in the area of retail payments, to the detriment of market development

The Chair highlighted the ECB's RPS and added that the ECB welcomes European initiatives like the EPI, also since the market share of European solutions has seen their roles shrinking, which creates an issue of strategic autonomy.

A market expert stated that the EU has become the champion in payment regulation, but it is nowhere near being the best in strategic autonomy because it is not serious about it. Strategic autonomy in payments means European governance, technology, standards and rules. There are significant doubts about whether the EU wants to achieve sovereignty and strategic autonomy. At the recent Paris Olympics purchases could only be made with cash or Visa.

Of the EU wants instant payments to be successful then it has to finalise the sanction screening policy, and the regulation applied to them, otherwise instant payments on a cross-European basis will never be successful because the failure rate will be too high. The Commission says it is the fault of the governments, the governments say it is the fault of the G20, and the G20 says it is the fault of the working groups. The EU is applying American rules to European payments, which does not work.

There is a great deal of regulation and much of it is necessary, but things like instant payments, PSD2, PSR, anti money laundering (AML), sanctions screening, the Digital Operational Resilience Act (DORA), and the payment instruments, schemes and arrangements (PISA) framework is 'drowning' companies.

Payments in Europe is a substantial economic sector but there is no recognition of that sector in Europe. The EU does not have any policy in favour of the development of European payments, and the regulations prevent market development. The approach needs criticising, not the regulators. Central banks are trying to give good guidance and help. Interesting discussions have taken place at Commission level. Regulators are doing their best, but the EU has the wrong approach.

An industry representative agreed with the point on strategic autonomy, which should be the top priority.

A market expert stated that Europe currently has three different models to get to a pan-European reach. The first model is national solutions that try to have interoperability. The second model, which is the approach the expert's company has taken, is to join forces, come up with a solution and try to convince merchants and others. The third model is the one of the ECB, and the digital euro to come up with a new payment solution. The best idea is for the private and public sectors to truly cooperate. Merchants will not understand if there are too many standards, so one standard is needed in the future that is valid for everybody.