

Will the EU Retail Payments Strategy trigger a paradigm shift?



Retail payments are at the forefront of the digital transformation of financial services. Changing payment-processing interfaces, the introduction of crypto-assets and more recently, new payment instruments, are all shifting the traditionally cash-dominated retail payment landscape.

In September, the European Commission published a Communication on a Retail Payments Strategy for the EU in response. In the strategy, the Commission puts forward a vision for European retail payments: i) a broad and diverse range of high-quality payment solutions for citizens and businesses; ii) availability of competitive home-grown, pan-European payment solutions; and, iii) cross-border payments with third countries.

On 19 November 2020, CEPS and ECRI organized a webinar with key stakeholders involved in the payment sectors to discuss the Retail Payments Strategy. Amongst the issues discussed were to what extent is the strategy setting the right priorities and objectives for a future-proof EU retail payments market and if the key actions to reach the objectives are fit for purpose.

This newsletter covers a series of contributions from the speakers on the Retail Payments Strategy.

The webinar can be rewatched [here](#)

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THE FUTURE OF EUROPEAN PAYMENTS IS OPEN

By Roeland van der Stappen
Head of Regulatory Affairs, VISA



The European payments market has witnessed considerable change over the past few years. Innovation in technology and regulation with the advent of Open Banking, combined with a wide variety of new and existing financial services providers, have placed Europe at the forefront of change. It is fair to say that the European markets now have more competition, more innovation, and more consumer engagement than any other region of the world.

The last few months has brought into sharp relief the importance of digital payments to our markets, as the adoption of contactless payments and e-commerce has increased. The security and resilience of the payments infrastructure has also been critical to maintaining confidence and credibility; and therefore to supporting business and economic recovery.

The European retail payments market is poised for more change in light of a further uptake of new and efficient digital payment solutions, PSD2 achieving its full potential, alongside a potential introduction of a digital euro.

Looking forward, we believe the future of payments is open. Europe should promote open payment systems combined with the use of open and global technical standards. This not only drives payments innovation and consumer choice but would also help reduce single points of operational and systemic failure in turn increasing overall payment sector resilience.

We believe that a diversity of payment methods should always be at the core of Europe's payment mix. We believe

consumers and merchants need choice and the ability to express their choice between payment methods such as card and instant payments that have different levels of consumer protection.

However, we need to consider how to enable consumers to understand the various protections available. We believe many consumers have an awareness of the protections offered with card payments, but an effort is still required for them to understand the level of protection for instant A2A payments. This needs to be explicit so that consumers are aware of payment protection.

While the level of consumer protection must be an informed choice, cyber security and resilience have to remain the bedrock of all digital payments. Therefore, it is important to embrace an ecosystem-based approach to address cyber resilience through minimum operational safety and soundness standards, data and cyber security standards for all payment ecosystem operators. Individual firm resilience remains vital, but may not be sufficient in itself in an increasingly complex environment, where new players enter the market and threats are constantly evolving.

As the payments landscape continues to evolve at a rapid pace, Europe should adopt a principle-led and outcome-based approach that gives payment service providers and payment networks the flexibility to innovate in order to deliver against objective measures such as fraud levels, security parameters, levels of market access and service delivery. There should not be any bias towards a specific solution or technology, rather the focus should be on ensuring that any new initiative improves existing end-user outcomes such as payment security, convenience, and fair costs.

ECRI PUBLICATIONS

Research Report: [The impact of EU price rules: Interchange fee regulation in retail payments](#)

Author: Willem Pieter de Groen

Event Report: [Responsible lending in times of crisis](#)

Authors: Beatriz Pozo and Willem Pieter de Groen

Research Report: [Key findings from the ECRI Statistical Package 2020](#)

Authors: Nagesh Kommuri, Xinyi Li, Roberto Musmeci

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EPI IS FULLY ALIGNED WITH THE EU RETAIL PAYMENTS STRATEGY

By Ana Climente,
BBVA's Head of Open Banking Spain



The European payments initiative (EPI) will provide an EU-wide end-to-end payment solution that intends to **enable in-store, online and peer-to-peer payments and cash withdrawals anywhere in the Union**. It will be a unique payment solution that will address these four use cases with a unified proposition and **leverage a new card scheme and recent developments in instant payments**, and include advanced functionalities.

BBVA believes that this solution will have several advantages. First and most important, it **will benefit European citizens and businesses**, offering them a conveniently integrated alternative and independent payments system that is secure, immediate and easy to use. Moreover, it will improve the **digitalisation and internationalisation of commerce** within the EU (particularly for SMEs). It will also boost innovation in payments and improve the **competitiveness and sovereignty of the EU in payments**.

BBVA, one of the initial member banks of EPI, sees it as a great opportunity to **meet customer expectations and enhance user experience**, while responding to the expectations of authorities to have a truly pan-European payment solution. Indeed, Spain's successful experience of Bizum, a P2P payment service developed on SEPA Instant Payments in response to customer demands, can contribute to EPI. Launched in 2016, Bizum now has over 12 million users and will soon add B2C solutions and in-store payments to its wide range of use cases, like e-commerce payments or donations to NGOs.

However, the success of EPI will strongly depend on the ability to establish a value proposition that creates the **right incentives for every stakeholder to join**, use and even invest in EPI. This will only be possible if regulatory certainty and stability is provided. Thus, future regulatory interventions (particularly on instant payments) should not undermine the sustainable business model.

In this sense, the **support** for this pan-European private payment solution shown by the **ECB and the European Commission** in their Payments strategies, and also in public events such as the CEPS-ECRI webinar on EU Retail Payments Strategy, is encouraging.

Nevertheless, **European authorities should address** some strategic issues that, otherwise, could hold innovation back, such as solving the **cross-sectorial asymmetry in data** access/portability created by the PSD2, **removing technical barriers** to implement innovative payment solutions (e.g. access to NFC antennas of mobile phones) and clarifying how the **digital euro** will interact with private solutions.

In summary, BBVA believes that **EPI could be a centrepiece** for the realisation of the Commission's Retail Payments Strategy to ensure Europe's strategic autonomy and competitiveness through a homegrown payment system. Moreover, **BBVA's commitment** to digital transformation, open banking, innovative payments and, overall, solving clients' day to day needs, where and when the necessity emerges, is in tune and well aligned with the policymakers' objectives laid out in the EU Retail Payments Strategy.

ECRI STATISTICAL PACKAGE

The ECRI Statistical Package provides a comprehensive overview of the trends and composition of the lending to non-financial corporations and households. It covers 45 countries including the EU Member States, UK, EU candidates and EFTA countries as well as the US, Canada, Japan, Australia, Russia, Mexico and Saudi Arabia.

Two Statistical Packages are on offer. The more comprehensive product "Lending to Households (from 1995)" contains valuable data on consumer credit, housing loans, other loans, total household loans, loans to non-financial corporations as well as total credit to the non-financial business and household sector. The 'standard' "Consumer Credit in Europe (from 1995)" exclusively covers consumer credit data.

In the 2020 country sheets were incorporated for the first time. They can be found in <http://www.ecri.eu/statistics>

The ECRI Statistical Package is complementary for ECRI members.

For more information or to purchase the package, visit CEPS website <https://www.ceps.eu/ceps-publications/ecri-statistical-package-2020/>, contact beatriz.pozo@ceps.eu or call +32 (0) 22293987

EUROPEAN PAYMENT TRENDS

By Thierry Antonin

Director Solution Consulting EMEA, ACI Worldwide



We are living in challenging, unique and, quite honestly, unprecedented times in Europe and across much of the world. When it comes to payments, the industry continues to evolve – due to the continuing pandemic, due to regulations and due to changing consumer and business preferences and habits. Regarding Europe, and in particular European payment trends, we can identify three forces that have come into play.

Moving from domestic to global interoperable standards:

Most people would agree the fragmentation of the European market explains a lot about the challenges Europe is now facing. Looking ahead, we see a European market structure consolidating around three major initiatives:

- **In the Nordics**, the P27 multi-country payment initiative is an impressive undertaking – the world's first real-time, cross-border payment system in multiple currencies to go live;
- **In the UK**, Brexit will result in further industry consolidation and grow around Pay.UK, which is focused on global standards;
- **In the Euro zone**, driven by the European Central Bank (ECB) vision and European Payment Council (EPC) rules, the domestic market structure (protected by local regulation) will become a much larger region composed of a set of countries sharing the same currency and common means of payment (SCT, SDD, SCT Inst) and potentially a European Payment Infrastructure (EPI).

While the rest of the world is still grappling with uncertainty, once Europe emerges from the pandemic and establishes post-Covid governance, we can expect some additional consolidation following the recent announcement of PKO BP joining EPI.

Digital enablement

I have always been a bit sceptical about the term *digital* – broadly speaking – because while there is no really good translation in French, the term doesn't work well at a European level either. Before moving forward, I would

narrow the scope of what digital enablement means for the sake of this article: the capability to pay online or in-store with one's mobile phone via an application. Interestingly, the EPI's goal is to render pointless the choice between card or account to account payments. We assume we'll pick the 'right' means of payment for each use case based on the 'reward' or convenience we'll derive from it. Previous European initiatives have not really scaled. Mostly for the reason described above; domestic regulations have restricted any possibility of success.

The new Request to Pay scheme recently issued by the EPC and the EPI project to unify the best of the European wallet offers Europe a path to large-scale digital enablement.

Mergers and acquisitions (continued consolidation)

If the consolidation trend continues at this pace, within just a couple of years most of the acquiring business in Europe will probably be shared across 10 players; consider that until recently most, if not all, of the retail banks had POS acquiring activity. And we can already foresee the ATM acquiring business following a similar path.

What are the consequences of such a market consolidation? Two questions come to mind:

1. Will the fact of Europe relying on a few (10 or so) players to process more than 50 billion transactions a year expose our economy to systemic risk? Will the regulators ask the processors to share their KPIs or, as has been done recently in the UK, ask for a reinforcement of operational resiliency of the payment suppliers? The recent European Commission Proposal for a Regulation on digital resilience for the financial sector (COM/2020/595 final) seems to hint at this type of scenario.
2. And another slightly more provocative question: are we witnessing the birth of 'GAFAs' of payments? How will the regulators prevent players from taking monopolistic positions? In November 2020 in India, regulators opened the market to WhatsApp, setting a limit of 30% to its expansion.

The coming years will continue to be challenging, although they will also be exciting, as Europe looks to take greater control of its payment ecosystem.

PAYMENT INSTRUMENTS SHOULD BE USED THE SAME WAY ACROSS EUROPE

By Jean Allix,
Special advisor, BEUC



As a European consumer organisation, we believe strongly that the internal market for payments is a basic freedom for the consumer. Cross-border effects should not exist; a payment instrument should be used the same way in any country. To achieve this overall aim, we have three main objectives.

Security and the fight against fraud:

Even if there are provisions in the Payment Services Directive (PSD2) to reimburse the consumer in certain cases of fraud, more efforts are needed to prevent fraud from occurring in the first place. In the end, it is always the consumer who suffers the effects of fraud. Consumers must, for example, be able to deactivate the contactless function of their payment card. It is also why we completely support the implementation of Strong Customer Authentication, and why we oppose any postponement to next year of rules that the industry has been aware of for some time.

We are in favour of digital identity, which is a project in the Commission communication on the Retail Payments Strategy, but it is necessary to set up mechanisms allowing for cooperation between public registers and the private sector, and to establish identification mechanisms.

Regarding cyber security, we support the legislative proposals on the Digital Operational Resilience Act (DORA), despite the fact that the consumer's information and compensation have been underestimated.

Convenience

Convenience: payment instruments need to be simple or consumers will not use them. Instant payment should become the new normal for credit transfers and should be adapted to different use cases, such as payment in shops, which need solutions as simple as traditional card payments.

Affordability and social exclusion: cash is a public good.

Cash withdrawal fees and ATM closures are making access to cash increasingly difficult. Steps must be taken to maintain an ATM network at reasonable costs. In September 2019, BEUC published a position paper regarding access to and the acceptance of cash. Likewise, it is essential to find much less costly solutions for the remittances sent by immigrant workers.

Prices: currently, one of the main issues for consumers is the price increases for banking services. Due to digitalisation, in particular, banks increased the prices of all non-digitalised services, which has caused a lot of concern for all consumers, regardless of their digital literacy.

Choice

Freedom of choice: it is important that consumers can choose the payment instrument that best suits them. Neither the provider of the payment method nor the merchant should decide how the consumer will pay; the consumer must be able to choose between the means of payment offered by the merchant. BEUC insists that cash continues to be accepted by all physical merchants.

Cards: There is no logic to a system in which Germans cannot use their bank card everywhere in the EU, for example in Italy. For years, the ECB has urged the different national card systems to merge. Europe needs a pan-European card scheme. If the EPI's idea is to merge national card schemes, BEUC fully supports the scheme.

Credit transfers: Unfortunately, consumers are poorly protected when making credit transfers. In recent years, many consumers have been tricked into transferring money to fraudulent accounts, with no possibility of redress. The Commission should upgrade the EU payments legislation to provide all consumers with the same protection, irrespective of the payment instruments used.

Markets in Crypto Assets: We fully support the idea of regulating stablecoins. See the BEUC response to the consultation.

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