

A retail payments strategy for the EU

An ECPA Position Paper

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In accordance with its Work Programme for 2020, the European Commission (EC) has indicated that it will shortly adopt and implement a Strategy for an integrated EU Payments Market (the so-called “Retail Payments Strategy for the EU”).

This paper confirms ECPA’s support for such a policy to address the future of payments in Europe and sets out the association’s views and recommendations on the implementation of such a strategy and framework, in particular in areas where the payment card could play a major role.

According to a survey conducted in June 2020 by the EC among both the general public and the industry stakeholders at large, the EC aims to achieve four key objectives:

1. Fast, convenient, safe, affordable and transparent payment instruments, with pan-European reach and “same as domestic” customer experience;
2. An innovative, competitive, and contestable European retail payments market;
3. An access to safe, efficient and interoperable retail payments systems and other support infrastructures;
4. Improved cross-border payments, including remittances, facilitating the international role of the euro.

The paper provides ECPA’s views on some of the topics which the European Commission should address to achieve the above-mentioned objectives viz. :

- Reinforcing the economic independence of the EU and the international role of the euro
- Innovation & promotion of new payment schemes to offer new services to consumers
- Adopting Open Standardisation to reinforce interoperability of payments in Europe
- Achieving the successful rollout of pan-European payment solutions based on instant credit transfers
- Improving the merchant experience when accepting payments
- Implementation of PSD2 and its potential impact on the market

Reinforcing the economic independence of the EU and the international role of the euro

Since the reinforcement of the EU's economic independence is of the utmost importance, ECPA supports any measures that would facilitate cross-border payments in Europe and recommends that existing investments and infrastructures such as European card and other payment schemes be considered when introducing such measures, at least at the first stage.

A priori, card-based instant payments based on a fully-fledged card authorisation process as it exists today would not require new rules or procedures, since the current EU and national legislation which apply to card payments and which provide legal protection to the cardholder could continue to apply independently of the way clearing and settlement would be performed between banks and the procedure by which the merchant is credited.

In doing so it is important to provide the consumer with a perception of continuity in the payment experience. This can be accomplished using cards associated with instant payments so as to :

- offer all the advantages of instant payments both in euro and other currencies (as is currently the case today when payment is made with a card) whilst
- providing merchants with the opportunity to be credited with the payment immediately and cardholders with legal protection in the event of fraud or misuse of their card and/or related data.

The euro as it exists today (or in a future digital form as the “e-euro”) is undoubtedly one factor to be considered for the development of new retail instant payment solutions and cross-border payments which would be efficient and to benefit of European stakeholders.

Furthermore, so as to ensure a level and fair playing field in the payments market and the freedom of consumer choice of payment services, the European institutions, including the European Central Bank (ECB), the European Banking Authority (EBA), the European Commission (EC) and National Competent Authorities (NCAs), must ensure that there is diligent and coordinated examination of passporting facilities within the EU for “*GAFA-style organisations*”¹

¹ The Digital New Deal Foundations Think Tank outlines suggested obligations for such digital platforms and providers of technology infrastructures and services, in particular in relation to contactless mobile payments so that EU Consumers have freedom of choice of payment services.

See : https://www.thedigitalnewdeal.org/wp-content/uploads/Contactless-mobile-payment_publication_DigitalNewDealFoundation.pdf

Innovation & promotion of new payment schemes to offer new services to consumers

ECPA supports the evolution of SCT_{Inst} and other payment schemes provided that the emergence of such schemes are left to market forces rather than use regulation and legislation for their development. In any event, any new regulation which is introduced must ensure the existence of a proper level-playing field between the various stakeholders and users of payment solutions.

Innovation has always been a high priority among all stakeholders (retailers, PSPs, processors and card schemes) in the card payment market. Suppliers have constantly adapted their services to offer new innovative payment instruments aimed at improving convenience and ease of use for both the payer and the payee, optimising the related costs of development and operation, and increasing the security associated with their usage.

In the past, the European Commission has been efficient in subsidising some new payment initiatives at a European level (for example, through IT research and development programmes) and, in so doing, has helped the market to adapt its offer and to innovate. Continuance or renewal of such a policy would be welcomed and supported.

In terms of EU regulation, a clear balance should be sought between the functioning of the market, the way it is regulated and the incentives which would allow European companies to compete with their international counterparts.

Adopting Open Standardisation to reinforce interoperability of payments in Europe

Additional "*open*" standardisation supporting interoperability of payments in Europe (and beyond) would be welcomed and encouraged.

Adoption and implementation of open (non-proprietary) international standards will also ensure technological independence, and initiatives taken by entities such as the EPC and ECSG in this area should be encouraged and supported accordingly.

One successful illustration of the "Open Standardisation" approach is the C-PACE project which has been developed as an open standard by the ECPC (European Card Payment Cooperation) ² to enable contactless card payments at the point-of-sale.

² <http://www.europeancardpaymentcooperation.eu/documents/>

The C-PACE initiative provides a clear example of how open standards developed within Europe can contribute to the successful roll-out of pan-European payment solutions and in this way overcome the current obligation to use proprietary solutions which are not necessarily European.

Other areas requiring attention include the use of QR-codes where the interoperability of QR-code solutions may require new rules and open standards to ensure interoperability within the EU, EEA and beyond.

Achieving the successful rollout of pan-European payment solutions based on instant credit transfers

Discrepancies between different regulatory requirements (EC, ECB, EBA and Competent National Authorities) applying to payment solutions must be avoided in order to protect the interests of the various stakeholders involved in a payment transaction.

There is an acute need to ensure that there is a fair and level playing field for all those who participate in a payment transaction.

The required level playing field should address “payment solutions” such as card payments, card-based instant payments, pure instant payments, and so on, and further cover not only the payment instrument in itself but also the potential form-factors, the technical interfaces, and the rules associated with the payment service provided used for the transaction.

When considering payment solutions, a clear separation should be made between the payment instrument (such as a card or a credit transfer) which is used to initiate the payment, the interface used to carry out the payment (contact, contactless, mobile, QR-code, internet, ...) and the platforms (such as the cross-border instant payment platforms such as STET, TIPS, RT1, etc.) used to perform the actual financial settlement of the transaction (including crediting the amount of the payment to the merchant).

Improving the merchant experience when accepting payments

Payment solutions based on instant credit transfers will most likely require adjustments to a merchant’s current IT system, accounting and/or liquidity management systems and considering that current card-based payment solutions do not require such adjustments and new investments, it would be advantageous for EU merchants if the new solution could integrate such existing solutions, thus inheriting the advantages of both worlds.

A card-based solution built on an instant payment settlement infrastructure would seem to be the most convenient and advantageous payment solution for EU merchants. Such an approach would provide the opportunity for the merchant to be paid immediately, whilst providing the consumer and

the merchant with the convenience and identical user experience for both face-to-face and/or distance payments.

Two of the key factors when deciding to adopt a new payment solution are:

1. The guarantee of payment (i.e. the assurance given to merchants that they will be credited in any event, provided that they have observed and complied with the relevant rules and procedures during the transaction) and/ or the opportunity for the merchant to be credited immediately.
2. The high level of protection provided today by European legislation to EU consumers when using a given payment solution.

This level of protection, which is already provided today for cardholders performing card payments throughout the EU, should ideally also apply to other types of payment solutions, such as instant payments, so as to maintain the same level of protection for the customer whichever payment method they decides to use.

It is therefore of the utmost importance to foster and maintain a seamless customer experience which is not linked to the payment solution used given the major impact it may have on a retailer in terms of brand, image and trust when doing business.

Similarly, the convenience in using payment management tools such as reconciliation and refunds will become more and more important for the merchant when selecting a payment solution to be used at a point of acceptance.

Fraud prevention will also remain one of the major challenges for participants / stakeholders in the payment market for years to come, given the increase in complexity of new ways to pay electronically and the expertise gained by hackers and cybercriminals in this domain.

Implementation of PSD2 and its observed impact on the market

The second Payment Services Directive (PSD2) has facilitated not only the entrance of new players in the market (namely FinTechs and GAFA-style organisations) but also Open Banking, and in so doing has increased competition with existing PSPs and card schemes.

It should be noted however, that PSPs, card schemes and technology providers have continually introduced innovation and develop new products and services without waiting for PSD2 to be adopted as EU legislation.

Such developments been done in response to market forces and needs, highlighting the fact that the absence of the introduction of legislation equivalent to PSD2 in other countries (the USA, for instance)

has shown that suppliers in the market can offer new ways to pay (such as X-Pay) ³ independently of any new legislation within the EU or elsewhere.

Security has always been a major concern for all participants in card-based payment (consumers, merchants, card issuers and acquirers and card schemes alike).

However, the impact of the introduction of Strong Customer Authentication (SCA) with PSD2 still needs to be demonstrated, mainly because of the cost of implementation of the required additional security requirements for merchants, PSPs, processors and card schemes.

The introduction of SCA in Europe has, indeed, already consumed a huge amount of resources and investment for most payment service providers and other stakeholders in a rather short period of time for its implementation.

It is recommended that there be no introduction of new security measures through legislation, since this would create not only an additional burden on all EU stakeholders, but more seriously would create distortion of competition for European stakeholders vis-à-vis their non-European counterparts (who are not always required to apply the same security rules). Such an absence of a fair and level playing field in the EU for all stakeholders would ultimately hamper European innovation.

About ECPA (EUROPEAN CARD PAYMENT ASSOCIATION)

Founded in June 2014 as a non-profit international association ECPA represents European card schemes and organisations managing essential functions such as type approval within the European Economic Area (EEA). The association represents the interests of its Members on subjects which impact the use and / or users of payment cards or similar payment instruments, including measures intended to promote the creation of a single European market for card payments (SEPA for Cards).

To this effect, ECPA

- *monitors, evaluates and responds to relevant legislation proposed in the EEA,*
- *maintains a dialogue on behalf of its Members with organisations such as the European Commission, the European Parliament, the European Central Bank, the Euro Retail Payments Board, the European Banking Authority, EMVCo, and PCISSC and other National, European or International bodies which are active in relevant areas of interest of its Members, including but not limited to legislation, security and standardisation concerning cards, card transactions and similar payment instruments.*

Membership of ECPA is open to:

- *card schemes whose brand is currently used within the European Economic Area (EEA) and which are commonly known as "European card schemes";*
- *organisations which manage essential functions such as type approval only within the European Economic Area (EEA).*

ECPA Members include

- *Bancontact Payconiq Company (Belgium), Borica-Bcard (Bulgaria), Cartes Bancaires "CB" (France), Nets-Dankort (Denmark), SIBS MB (Portugal), Sistema de Tarjetas y Medios de Pago (Spain), and Vipps-BankAxept (Norway)*
- *UK Finance, the Dutch Payments Association (Betaalvereniging Nederland), and the Pan-Nordic Card Association.*
- *BKM (Turkey) and NSPK (Russia) are Business Associates.*

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³ « X-pay » is used here to denote, for example, Apple-Pay, Samsung-Pay, Google-Pay, etc.