ERPB REACTION TO THE COMMISSION'S CONSULTATION ON A RETAIL PAYMENTS STRATEGY FOR THE EU

1. Introduction

The Euro Retail Payments Board (ERPB) welcomes the Commission's initiative to launch a retail payments strategy for the EU and the respective public consultation. It welcomes the four key objectives set out in the consultation, namely: 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) access to safe, efficient and interoperable retail payments systems and other support infrastructures; and, 4) improved cross-border payments, including remittances, facilitating the international role of the euro.

The objective of the ERPB is to contribute to and to facilitate the further development of an integrated, innovative and competitive market for euro retail payments in the EU. To this end, the ERPB identifies and pursues ways to address technical, behavioural and legal obstacles in retail payments as well as to foster innovation, competition and integration in this field. The ERPB is a European body which brings together both the demand side (consumers, businesses, and national public administrations) and the supply side (banks and other payment service providers) of the market in an open dialogue thus ensuring that any activities and recommendations have full stakeholder buy in.[1]

The ERPB therefore welcomes the opportunity to comment on the Commission's consultation as an additional means to pursue its objectives on true pan-European integration in retail payments.[2]

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[1] See ERPB mandate.

[2] Bearing this in mind the focus of the ERPB's reaction to the Commission's consultation is on the issues comprising the ERPB body of work without prejudice to the views expressed by its members individually in their responses to this consultation.

2. Comments

2.1 Fast, convenient, safe, affordable and transparent payment instruments with pan-European reach and "same as domestic" experience

Instant payments as the new normal

In 2018-19, following earlier efforts to enable interoperability of P2P instant payments, the ERPB focused on (interoperability of instant payments at) the point of interaction (POI) as an important yet underdeveloped use case. Considering the high number of transactions involved in POI payments, this use case could have a significant impact on the uptake of instant payments and bring tangible benefits to merchants and consumers across Europe. Existing initiatives, however, tend to be limited in their geographical scope both on the consumer and on the merchant side, and to use proprietary standards for e.g. messaging, pointing to a need for standardisation. For this purpose, the ERPB set up a working group with the mandate to analyse the requirements for the pan-European reach of solutions for instant payments at POI, to help foster the broader setting up of an integrated pan-European instant payment landscape.

Question 12 of this consultation lists a number of potential measures that could contribute to the roll-out of pan-European payment solutions based on instant credit transfers. From the perspective of the ERPB, additional standardisation is a rather relevant measure. The ERPB WG on instant payments (IP) at the POI identified[3] the lack of interoperability rules and appropriate governance between IP solutions as a barrier to pan-European SCT Inst based POI payments, noting that a dedicated framework is needed covering not only common rules and procedures but also an accompanying governance model to manage compliance with these common interoperability rules and procedures between IP service providers.

From a technical perspective, not only the use of different (proximity) technologies for requesting and initiating payments (i.e. for exchanging transaction data at the POI) can be a barrier, but also the fact that, even when the same proximity technology is used for IPs at the POI, proprietary formats are used for exchanging transaction data between the consumer and the merchant. To avoid a further fragmentation, technologies should be standardised, ideally hereby considering the enablement of different IP payment contexts, next to payments at POI (e.g. invoices, P2P payments). In view of the current market situation, priority should be given to the standardisation of a "generic" QR-code, useable in different payment contexts, with other proximity technologies to be also within the scope of standardisation.

The ERPB identified a definite need for standardisation of "Request-to-Pay" (RTP) which would enhance the convenience for consumers for POI payments. It welcomed the decision of the EPC to start the development of an RTP scheme to be submitted to public consultation, stressing the need for the scheme to be open.[4]

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[3] See ERPB, "Final report of the ERPB Working Group on Instant Payments at POI", November 2019.

[4] See ERPB, "Statement following the twelfth meeting of the Euro Retail Payments Board held on 25 November 2019".

Regarding **Question 17** on the most important factor(s) for merchants when deciding whether or not to start accepting a new payment method, ERPB analysis shows that the cost and creation of added value are important factors for the adoption of SCT Inst at the POI by both consumers and merchants. This includes aspects such as convenience, security, transparency, additional services. Transparency on remunerations and services supported is critical to developing a sustainable business case for all stakeholders involved. Stakeholders generally report to value additional services provided in the context of existing payment solutions, whereas the current lack thereof for SCT Inst (for instance: pre-authorisation, recurring payments, refund) is a perceived barrier for the take-up of IP at the POI in some retail sectors. Furthermore, merchant integration is a prerequisite for both a seamless consumer experience and reconciliation by the merchant. The complexity of the integration and maintenance of multiple solutions (whether based on instant payments, cards, or any other payment instrument) in the merchant environment (POI, Electronic Cash Register; Enterprise Resource Planning) while covering all payment functionalities with appropriate reconciliation is a major challenge that next to the technical aspects also includes some business aspects.[5] Furthermore, there is a need for communication in order to increase familiarity with instant payments at the POI and their features among both consumers and merchants, to build trust in these solutions and awareness of their advantages.

2.2 An innovative, competitive and contestable European retail payments market

PSD2 implementation and market developments

The ERPB rather agrees with the view that PSD2 has allowed for open banking to develop **(Question 23)**. Changing conditions in the European retail payments landscape (e.g. changing consumer habits, new actors and business models, new technologies and operating systems)[6] raise growing concerns among public authorities about European industry's ability to deliver competitive pan-European solutions to their clients, thereby casting a shadow on the future of the European payments market. Open banking is a tool both for strengthening the industry's resilience to changing conditions by supporting innovation and for bringing benefits to the end users. There is considerable potential in open banking yet to be explored and brought to fruition. In that context, the ERPB shares a view that further action at EU level is needed, albeit not necessarily legislative action (**Question 28**).

Building on PSD2, the ERPB would see value in the development of a broader European 'open asset sharing' economy beyond payments and even beyond financial services.[7] This could foster further progress on open banking by helping to unlock value for all actors in the ecosystem via collaboration across the industry for customers' convenience. The ERPB supports developing a wider approach to the sharing and use of customer-permissioned data in the financial sector – a topic addressed in the parallel

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[5] Ibid.

[6] See ERPB, "Report of the ERPB Working Group on a Single Euro Payments Area (SEPA) Application Programming Interface (API) Access Scheme", June 2019

[7] Ibid.

Commission's consultation on a new digital finance strategy for Europe – also in the interest of efficient and sound pan-European payment initiation services (PIS) and account information services (AIS).

In this context, the ERPB, through a dedicated working group, has explored the possibility of establishing a Single Euro Payments Area (SEPA) Application Programming Interface (API) access scheme encompassing services beyond the (mandatory) scope of PSD2 by following a non-regulatory, coordinated approach aim at addressing the mutual interests of the stakeholders. The scheme would enhance the benefits of existing legal frameworks and facilitate value-added services, i.e. transaction initiation services other than payment initiation, sharing of bank owned, or customer data other than payment accounts data. While the ERPB concluded that this scheme, by creating the conditions for a fair distribution of value and risk between the actors, is the best approach to unlocking the potential of open banking beyond PSD2, it suspended this work until PSD2 implementation has stabilised and stakeholders' resources can be reprioritised.

Question 26 deals with contactless payments. The ERPB acknowledges the role of contactless cards in increasing end user convenience and has observed the upward trend in contactless card-based payments. The ERPB identified a need to standardise contactless kernels in order to foster the take-up of mobile and card-based contactless proximity payments. POIs may support different contactless kernels. A single contactless kernel has not been produced by EMVCo[8]. Instead, EMVCo acts as a voluntary registration authority for EMV based contactless kernels deployed by local or global schemes. Two additional contactless specifications, namely PURE and CPACE, are currently deployed in SEPA.[9] Against this backdrop, the ERPB recommended: (i) accelerating the creation of a single common POI kernel specification for contactless transactions; (ii) limiting the number of terminal configuration options in the EMV specifications, and (iii) including a parameter in the EMV specifications that would allow the identification of the form factor of the consumer device used for the initiation of the contactless transaction. These recommendations remain outstanding at the time of drafting this reaction, but EMVCo is following up through the existing process for updating EMV specifications.

The ERPB also recognises that the use or creation of European standards to facilitate contactless, non-card-based, SCT Inst based proximity payments, which do not necessarily require mobile network connectivity may be required to facilitate the development of compelling pan-European payment solutions based on instant credit transfers.

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[8] EMVCo is the body that manages EMV specifications for payment cards and terminals as well as the related testing processes. EMVCo's work is overseen by six member organisations (American Express, Discover, JCB, Mastercard, UnionPay, and Visa) and is supported by banks, merchants, processors and other industry stakeholders who participate as EMVCo Associates.

[9] See European Cards Stakeholder Group, "Feasibility Study on the development of open specifications for a card and mobile contactless payment application", September 2017.

2.3 Access to safe, efficient and interoperable retail payment systems and other support infrastructures

Ensure a fair and open access to relevant technical infrastructures in relation to payments activity

Question 34 deals with national legislative initiatives to mandate technical services supporting the provision of payment services to give access to such technical services to all payment service providers. Mobile devices and operating systems are a relevant example of technical services increasingly underpinning payment service provision. Since 2015, the ERPB has taken an interest in the evolving mobile ecosystem in light of the fact that end users' reliance on mobile devices to access payment services is on the rise. The mobile devices allow the co-existence of different payment solutions on a single device, even from multiple PSPs either using similar or different technologies. In that context, there is larger room for competition with new/emerging actors (e.g. wallet providers) . Amid rapid developments in these field, the ERPB identified a strong demand for more openness of the new solutions to support competitiveness via an open (but secure) and free access to the mobile device capabilities (e.g. the NFC antenna). This would ensure that the consumer can have a choice of payment applications from different mobile payment service providers, independently of the mobile device and the operating system used.

Given the ERPB stance on this matter, EU legislation to oblige providers of technical services supporting the provision of payment services to give access to such technical services to all payment service providers – provided risks are effectively mitigated – would be welcome and be aligned with the spirit of past ERPB recommendations and the objective to enable pan European SCT Inst solutions at POI.