

Retail Payments Strategy of the EU: a summary

In September 2020, the European Commission (EC) adopted a new **Digital Finance Package** (https://ec.europa.eu/info/publications/200924-digital-finance-proposals_en), which consists of the Retail Payments Strategy, the Digital Finance Strategy, legislative proposals for an EU regulatory framework on crypto-assets, and proposals for an EU regulatory framework on digital operational resilience.

The Retail Payments Strategy is available for download at <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020DC0592&from=EN>.

Two "at a glance" documents for both the Retail Payments and Digital Finance Strategies have been published by the European Commission:

- Retail Payments Strategy: https://ec.europa.eu/info/files/200924-retail-payments-factsheet_en
- Digital Finance Strategy: https://ec.europa.eu/info/files/200924-digital-finance-factsheet_en

The **Retail Payments Strategy** is a policy framework intended to support the EC's objective of "a highly competitive payments market, benefitting all Member States, whichever currency they use, where all market participants are able to compete on fair and equal terms to offer innovative and state-of-the-art payment solutions in full respect of the EU's international commitments".

The Retail Payments Strategy focuses on four key pillars:

1. increasingly digital and instant payment solutions with pan-European reach;
2. innovative and competitive retail payments markets;
3. efficient and interoperable retail payment systems and other support infrastructures; and
4. efficient international payments, including remittances.

Pillar 1 – Increasingly digital and instant payment solutions with pan-European reach

Key objectives and aims of the EC's strategy in relation to the focus of pillar 1 include:

1. Encouraging the use of instant payments as the "new normal" across the EU. The EC is aiming for the full uptake of instant payments in the EU by end-2021 (see also key actions).
2. Expecting payment solutions to be interoperable, accessible, to add value and meet the needs of a broad range of users.
3. Expecting broad adherence of market participants to the schemes and recommendations developed by the Euro Retail Payments Board (ERPB) and the European Payments Council (EPC), such as the 'SEPA proxy look-up' and the 'Request-to-Pay' schemes.
4. Considering that the development of a single, open and secure European standard for QR-codes would support the uptake and interoperability of instant payments.

5. Increasing consumer trust in the use of instant payments -- including examination of fraud and liquidity risks, consumer protection measures and charges levied --, and fostering the development of European-grown payment solutions that work cross-border.
6. Reaping the full potential of the Single Euro Payments Area (SEPA).
7. Exploring the potential of electronic identity (eID) for customer authentication; building on the further enhancement of eIDAS, to support strong customer authentication (SCA) requirements under the revised Payment Services Directive (PSD2) for account login and initiation of payment transactions.
8. Improving the acceptance of digital payments – whilst safeguarding the availability of euro cash –, and supporting work by central banks which are looking into the possible issuance of a retail Central Bank Digital Currency (CBDC), while continuing to work to foster cooperation between the private and public sectors.

Key actions:

- **Q4 2020** – EC to carry out a review and assess and evaluate the relatively low numbers of payment service providers (PSPs) participating in the SEPA Instant Credit Transfer Scheme with the possibility of proposing legislation requiring PSPs to adhere to the Scheme by the end of 2021.
- The EC will assess whether it would be appropriate to require adherence by relevant stakeholders to all, or a subset of, the additional functionalities of SEPA Instant Credit Transfer (SCT Inst), which could also include any future standards for QR-codes.
- **Late 2021** – as part of the planned review of PSD2 – see also pillar 2 – the EC will:
 - assess the extent to which the EU's existing consumer protection measures (e.g. rights to refunds) can provide consumers making instant payments with the high level of protection offered by other payment instruments.
 - assess the impact of charges levied on consumers for instant payments and, if relevant, require that they are no higher than those levied for regular credit transfers
 - examine whether specific measures should be taken to enhance the effectiveness of the crisis management of payment systems, and to ensure sound mitigation measures on the liquidity risk for financial institutions resulting from the rapid, low-friction outflow of funds via instant payments, in particular when taking place outside normal office hours.
 - investigate whether additional measures should be taken to address other specific risks, such as money laundering, terrorist financing and related predicate offences.
- **End 2021** – The EC will closely follow acceptance and availability of euro cash and may decide to take appropriate action to maintain the availability of central bank money.
- **2022** – The EC will carry out a study of the level of acceptance of digital payments in the EU (including by SMEs) and may propose legislation if deemed appropriate.

- **By end of 2023** – The EC will explore the feasibility of developing a “label”, accompanied by a visible logo, for pan-European payment solutions. It will also consider ways to promote the use of electronic identity solutions under the (revised) eIDAS Regulation to support SCA requirements under PSD2.
- The EC reminds national competent authorities of their enforcement obligations under the SEPA Regulation. It expects them to swiftly investigate and remedy all breaches to the Regulation (such as “IBAN discrimination”) by putting an immediate end to illegal activities and imposing appropriate sanctions. It will closely monitor cases of non-compliance and will launch any necessary infringement procedures.
- In order to support the issuance of a euro retail Central Bank Digital Currency, the EC will work closely with the ECB on the objectives and policy options and on ensuring a high level of complementarity between the payment solutions developed by the private sector and the necessary intervention of public authorities.

Pillar 2 – Innovative and competitive retail payments markets

Key objectives and aims of the EC’s strategy in relation to the focus of pillar 2 include:

1. Reaping the full potential of PSD2, and making open banking a full success, which will inform the EC’s work on a broader framework for open finance.
2. Re-examining existing legal limits of contactless payments, with a view to striking a balance between convenience and fraud risks, and identifying solutions for consumers to monitor their transactions.
3. Considering any risks stemming from unregulated services, especially technical services ancillary to the provision of regulated payment services, including the possibility of:
 - 3.1 Bringing these activities into the scope of PSD2 by listing them as regulated payment services;
 - 3.2 Identifying the issuance of electronic money as a payment service under PSD2 and, if possible, bringing issuers of electronic money tokens into the scope of PSD2; and
 - 3.3 Bringing providers of unregulated services under direct supervision as well as ensuring more broadly proper linkages between supervision and oversight.
4. To ensure a high level of security for retail payments in Europe, the EC is proposing to (no dates given)
 - 4.1 evaluate how well SCA has decreased payment fraud in the EU; and
 - 4.2 explore what further measures might be needed to combat new types of fraud, in particular with regard to instant payments.
5. Ensuring future-proof supervision and oversight of the payments ecosystem, in respect of a level playing-field between PSPs.

Key actions:

- **End of 2021** – The EC will launch a comprehensive review of the application and impact of PSD2.
 - In its review of PSD2, the EC will take stock of SCA's impact on the level of payment fraud in the EU and explore whether additional measures should be considered to address new types of fraud, in particular with regard to instant payments.
 - When reviewing PSD2, the EC will, in close coordination with the European Banking Authority, re-examine the existing legal limits on contactless payments, with a view to striking a balance between convenience and fraud risks.
 - In the context of the PSD2 review, the EC will take account of any recommendations by the ERPB regarding solutions for consumers to identify the beneficiary and time of a payment.
 - The review will include an evaluation of any new risks stemming from unregulated services, especially technical services ancillary to the provision of regulated payment or e-money services, and how these risks can best be mitigated.
 - The EC will look to align the PSD2 and Electronic Money Directive (EMD2) frameworks.
 - Where necessary, the EC will ensure proper linkages between the supervision of payment services and the oversight of payment systems, schemes and instruments.
- **Mid-2022** – The EC plans to present a legislative proposal for a new “Open Finance” framework.

Pillar 3 – Efficient and interoperable retail payment systems and other support infrastructures

Key objectives and aims of the EC's strategy in relation to the focus of pillar 3 include:

1. Expecting operators of retail payment systems to ensure efficient interoperability between systems (particularly directed at SCT Inst).
2. Removing restrictions on access to necessary technical infrastructure considered necessary to support the provision of payment services (e.g. access to Near Field Communication (NFC) technology of mobile device operating systems) under fair, reasonable and non-discriminatory conditions (“FRAND”), and consider whether legislation is necessary taking into account the potential security and other risks that such access could pose.

Key actions:

- **Q4 2020** – In the framework of the Settlement Finality Directive (SFD) review, the EC will consider whether to extend the scope of the SFD to include e-money and payment institutions.
- The EC will examine whether it is appropriate to propose legislation aimed at securing a right of access under fair, reasonable and non-discriminatory conditions, to technical infrastructures considered necessary to support the provision of payment services.

Pillar 4 – Efficient international payments, including remittances

The key aim and objective of this pillar can be summarised as follows:

1. The last pillar of the retail payments strategy for the EU takes a look at the need for efficiency and transparency in the arena of international payments and how this should strengthen the position of the euro as a global currency.
2. The objective is for cross-border payments involving non-EU countries, including remittances, to become faster, more affordable, more accessible, more transparent and more convenient.

Key actions:

- The EC expects payment system operators to facilitate linkages between European systems such as TARGET Instant Payment System (TIPS) or RT1 and non-European instant payment systems, as long as those systems have appropriate levels of consumer protection, fraud and money-laundering prevention and risk mitigation measures.
- The EC calls for the adoption of global international messaging standards such as ISO 20022 at the latest by end 2022, and encourages the use of SWIFT's Global Payment Initiative (GPI), which facilitates the tracking of cross-border payments in real time for participating institutions.
- As part of the PSD2 review, the EC will assess the appropriateness of extending the maximum execution time applicable to 'two-leg' transactions to 'one-leg' transactions.
- Referencing the European Payments Council's work on further harmonisation of business rules and messaging standards for euro one-leg transactions, the EC will assess whether it is necessary to make these mandatory.
- The EC will support SEPA-like initiatives in regional groupings of low and middle-income countries, and in relevant cases the possibility of non-European countries to join SEPA.

Next steps

The strategy identifies key priorities and objectives for retail payments in Europe over the next four years. The European Commission encourages all stakeholders to engage actively in the implementation of this strategy.