



PAYMENT SYSTEMS MARKET EXPERT GROUP (PSMEG)

Minutes of the meeting of 19 January 2024

1. OPENING REMARKS

The agenda was adopted without comments. New members of the group were introduced.

2. PSD3/PSR: LEGISLATIVE PROCESS UPDATE

Commission services gave an update on the legislative process developments in the Council and in the European Parliament with respect to PSD3 / PSR legislative package.

3. INSTANT PAYMENTS REGULATION: LEGISLATIVE PROCESS UPDATE

Commission services gave an update on the process of finalising the political agreement on the Instant Payments Regulation (IPR) that was reached by co-legislators on 7 November 2023, including on the timeline for final adoption, publication in the Official Journal and expected entry into force of the Regulation. Based on this timeline, Commission services noted that first obligations included in the IPR are expected to become applicable around December 2023.

Several members of the group argued that given the relatively short implementation deadlines industry needs timely clarifications to be provided on how certain obligations, for instance, the obligation to restore the payment account of the payer to its original state if an instant credit transfer is not executed within 10 seconds, are to be implemented. They also argued that it is important for such clarifications to be provided to all industry participants and preferably in a written format, to ensure consistent and timely implementation. Commission services clarified that it is in the process on deciding the appropriate format for providing such clarifications to the industry and also national competent authorities, and that the industry will be informed about that process shortly. Two members of the group mentioned that the month of December is usually not the best month, from internal IT systems point of view, to introduce new changes in PSPs' processes or systems. One member expressed disappointment that the provision aiming to prevent the circumvention by PSPs of their obligation not to charge for instant payments more than for regular credit transfers was not included in the ultimate text of

the Regulation. Commission services clarified that this risk is addressed by the obligation for PSPs to report on the level of charges for instant and regular credit transfers, and for payment accounts. In response to the question from another member of the group, Commission services further clarified that such reporting will have to include data from 26 October 2022 (the date of adoption of the legislative proposal by the European Commission) onwards. One member asked about the amendment to the Settlement Finality Directive (SFD) and how it relates to negotiations on PSD3/PSR. Commission services clarified that the amendment to SFD is to be implemented by Member States within 12 months from the date of entry into force of the IPR, and that no further amendment to the SFD will be needed under PSD3/PSR (to allow payment institutions and electronic money institutions to apply for participation in payments systems designated pursuant to SFD). In view of the upcoming exercise to provide the industry with clarifications on IPR implementation, Commission services invited members to submit any additional questions that they have identified.

4. PSMEG DISCUSSION ON DESIGN OF EUROPEAN PAYMENT SOLUTIONS

Presentation by the CEO of European Payments Initiative (EPI)

The representative of the EPI presented design, governance structure, membership, use cases and additional value-added services to be offered by the mobile wallet of the payment solution and the planned timeline for their rollout. EPI also informed about the announcement of wero as commercial brand for launch, about signing of strategic deals with iDEAL and Payconiq as well as first successful transactions between FR and DE banks with Proof of Concept. EPI's approach will be based on combining the SCT Inst infrastructure (for settlement) and complementary scheme rules set by EPI. Wero will be available through standalone wallet app and via mobile banking app integration. EPI is interested in cooperating with the ECB and is open to explore integration of the digital euro in its wallet. In view of EPI, interoperability-based approach allows only to interlink diverging national solutions; while all national solutions continue to have their own rules, standards and business model, preventing an easy cross-border functioning and mutual acceptance. To extend its geographical scope, EPI can offer to investigate interoperability scenarios with other existing local solutions to allow a migration to EPI, on a case-by-case basis and with a real business case, for a clearly limited timeframe (migration period).

In the discussion that followed, a number of questions posed by members of the group were covered by the representative of EPI: interoperability of wero with other payment solutions in a longer term, including with international regional payment solutions, about supporting open banking payments, about authentication of payments, implementation of verification of the payee, on why QR code approach was chosen, plans to extend wero to NFC technology, to co-badge with national debit cards, about interplay of EPI's and the digital euro respective rule books, offering of standardised reporting for merchants, about pricing model for consumers and merchants.

Presentation by the Chairman of European Mobile Payment Systems Association (EMPSA)

The representative of EMPSA presented the membership of the association, with some of the individual members in more detail, stressing that it requires long time and a lot of

efforts to develop a successful payment solution. He drew attention to the advantage of interoperability between local solutions in its ability to customise the offering and better respond to the needs / preferences of local markets. He noted that the success of the product is dependent on the efforts of multiple participants and stakeholders. He argued in favour of collaboration by drawing analogy with the mobile phone roaming, arguing that every European citizen should be able to use their favourite mobile payments solution across Europe without barriers or surcharges. He gave examples of how interoperability should work from the user and merchant perspectives, referred to the use of the QR codes, EMPSA's legal & commercial as well as technical frameworks, and a way to make EMPSA wallets compatible with the digital euro. He argued that the best way to quickly attain a truly pan-European reach is via interoperability. He noted that in terms of long term scale, interoperability of different solutions based on a central hub/gateway is the best option (compared to the approach based on bilateral connections).

A member of the group informed about European Payments Alliance (EuroPA), a partnership for interoperability between BANCOPAY, BIZUM and MB WAY payment solutions. The agreement signed on 14 December 2023 outlined the principles of interoperability, with the goal to develop the P2P interoperability in 2024 as a first step to be followed by other payment use cases in the future. Initial focus of the three solutions will be on their connection, with openness to engage with other European solutions (such as other EMPSA members, EPI, etc). Approach is based on reusing existing infrastructure and technical components in place for each solution to minimise efforts and investments.

In the discussion that followed, a number of questions posed by members of the group were answered by the representative of EMPSA: whether EMPSA is an alternative of complementary initiative to EPI, alignment of fees for consumers when different solutions become interoperable, the potential of EMPSA-based approach to achieve the strategic autonomy in payments in Europe.

Presentation by SEPA Payment Account Access (SPAA) scheme

The co-chair of the SPAA gave the overview of the background, roadmap and key characteristics of the SPAA scheme, whose rulebook was endorsed by the EPC and became live on 30 November 2023, explaining the difference between SPAA basic and SPAA premium services and also presenting the list of services that are supported through SPAA. He also described the default asset remuneration model, covering default asset fee and default API access fee; benefits for the different stakeholders (asset holders, asset brokers, asset users and asset owners); and elements of SPAA value proposition, such as enabling stakeholders to leverage investments in PSD2 and instant payments or complementarity with other payment solutions. The scheme already has its first TPP participant.

In the discussion that followed the members exchanged their views on whether coexistence of various approaches that were presented in the meeting represent an opportunity or rather a threat (for a successful progress of each of them).

Commission services invited members of the group to submit their views in written on the topic of European payment solutions, elaborating on opportunities and risks arising from existence of multiple alternatives.

5. OUTCOME OF WORK OF SUB-GROUP 1

The co -chairs of the sub-group on *Sustainable, fair and competitive business model* presented the results of the group's work, focusing on the stocktake exercise which was based on the previous work of the ERPB on instant payments @ POI. 18 questionnaires were sent out to gather non-confidential, publicly available info on the functioning and business models of European payments solutions that participated in the ERPB exercise. Responses from 8 payment solutions were received.

In terms of feedback received, all of the solutions offered services to businesses as payees and 50% of them offered services to consumers as payees as well. The fees are based on 4-corner model or, in some cases, on 3 corner model. In terms of transaction fees, there are no charges on payers (even though this is not legally required), charges are on payees / merchants, with no possibility of surcharging. While other compensation methods were possible, no solution was reliant on such a method.

In terms of profitability, most of the solutions are profitable at the level of solution/scheme. In terms of benefits stemming from solutions, the most important ones were user experience and functionalities (immediacy, reconciliation), efficiency and competitiveness, trust and security as well some others. In terms of challenges, the main ones were linked to the fact that existing solutions have local and P2P focus, low quality of APIs that is making development of solutions challenging.

Members of the sub-group agreed that success of payment solutions depends on (no) payer fees, incentives so that all the players are rewarded for their participation, and user experience. In general, across the existing payment solutions, there are three common elements necessary for successful development of a payment solution: (i) user attractiveness, (ii) compensation and incentives for members, and (iii) profitability.

6. UPDATED RETAIL PAYMENTS STRATEGY OF THE ECB

The representative of the ECB gave a presentation on the updated Retail Payments Strategy of the ECB. The ECB's strategy of 2019 had the main goal of supporting and fostering the development of pan-European (POI) payment solutions, with five objectives for any solutions to meet: (i) pan-European reach and seamless customer experience, (ii) European brand and governance, (iii) convenience and cost efficiency, (iv) safety and security, and (v) global acceptance. The strategy was complemented in 2020 with additional goals of (i) full deployment of instant payments, (ii) improvement of cross-border payments (into/out of EU) and (iii) support for innovations and for an innovative payment ecosystem.

In 2023 the strategy was updated to reflect developments such as continued and increased activities of BigTech toward payment and basic banking services, Russian war against Ukraine and related increased cyber risks to critical infrastructure in the EU/euro area,

and progress made on the digital euro. Priorities for 2024 and beyond are based on existing goals which remain important. In this context, development of pan-European solutions for retail payments at POI and enhancement of “classic” SEPA, including full deployment of instant payments, remain at the heart of the Eurosystem’s efforts. An additional goal of *Increasing the resilience of retail payments* has been added.

Also, the updated strategy explains relation between existing goals of the strategy and the digital euro project, with the relationship being of complementary nature. Both the Retail Payments Strategy and the digital euro are needed to achieve economic efficiency and strategic autonomy in Europe, to make retail payments more resilient and to cater for various user cases and user preferences. Given that the volume of digital retail payments in the euro area is growing markedly even in absence of the digital euro, its introduction is unlikely to crowd out private pan-European solutions for retail payments @ POI. The digital euro also envisages using to the greatest possible extent existing industry standards, components and technology, which should support its efficient implementation and help contain overall investments required by the industry. From this angle, the digital euro could help private retail payment solutions to achieve a pan-European reach and expand use cases. The issuance of digital euro also reflects the trend of diminishing demand for cash with some Member States become cashless societies and, thus, central banks need to reflect about how to provide central bank money to the public. In terms of co-existence of private and public pan-European payment solutions, market is large enough to accommodate both of them. Reflecting this, the ECB welcomed the creation of EPI and encouraged it to pursue the aim of including all markets and more participants.

Eurosystem also supports other payment solutions, provided that they are coherent with the five key objectives of its strategy. Ideally, they should be based on processing infrastructure that is different from that of card payments, as this would increase resilience and it would be beneficial if they were able to handle the digital euro scheme. As regards strengthening the SEPA payments, first and foremost this concerns full deployment of instant payments, which requires attractive conditions for end users, such as availability on all electronic channels, and additional functionalities such as SRTP.

Eurosystem will also assist the Commission and national authorities in addressing IBAN discrimination, and also welcomes EPC’s SPAA scheme given that SPAA and PSD2 based payment solutions can play a positive roles in ensuring payment solutions @ POI. In terms of supporting innovation, digitalisation and European payments ecosystem, the Eurosystem has set up a European fintech payments dialogue, is working on a harmonised policy to implement the SFD amendment making nonbank PSPs eligible to participate in payment systems.

In the discussion that followed, a number of questions were discussed in relation to the digital euro project, including on: complementarity between the digital euro and private payment solutions, in terms of investments that distributors would be expected to make to offer both of them in the short to medium term; level playing field between the digital euro and commercial payment solutions, on grounds that digital euro is less of a digital cash and more of a digital payment solution; the impact of waterfall / reverse waterfall approach which would enable the digital euro to be used for unlimited payments regardless of the holding limit, and whether there should be a limit on reverse waterfall (similar to the limit on cash that exists in Member States); compensation for wallet

servicing banks; level of fees paid by merchants to acquirers; type of PSPs that would be mandated to distribute the digital euro and whether there would be any infrastructure funds or financial support; whether there is a need to have a regulatory pricing intervention. As regards issues not related to the digital euro, questions pertained to ECB's policy on access of nonbank PSPs to payment systems and plans to connect with other real time payment systems internationally.

7. AOB / CONCLUSIONS

Next meeting of the group will be held online in March to cover agenda point 7.