EUROPEAN COMMISSION
Directorate General Financial Stability, Financial Services and Capital Markets Union

Horizontal Policies

PAYMENT SYSTEMS MARKET EXPERT GROUP (PSMEG)

Minutes of the meeting of 3 April 2025 including the follow-up call of 27 May 2025

1. Opening remarks

Meeting opened with some organisational remarks.

2. Significant developments in the payment services market

Representative of payment processors updated the group about further efforts of three members (MB Way, Bizum and Bancomat) of EMPSA, which have launched EuroPA alliance to connect their mobile payment solutions, informing that the connection between the three solutions enabling their users to make peer-to-peer transfers among themselves went live. A representative of PSPs supplemented that Bizum payment solution recently had launched instant payments in shops in Spain, enabled a possibility to pay income tax and is also working on implementation of request-to-pay functionality.

A representative of PSPs asked about the state of play of adoption by the Commission of the Implementing Technical Standards (ITS) on charges for instant credit transfers and on rejected transactions due to sanctions screening. He also pointed out to the need to avoid frictions and to ensure appropriate communication with payment service users ahead of the roll out of the verification of the payee (VoP) service by 9 October. The Commission services clarified that the Commission is in the process of the internal adoption procedure of the ITS, that the first reporting date for the industry, as communicated by the European Banking Authority would be April 2026 and that the industry would be expected to report historical information starting with 26 October 2022. As regards the VoP service, the Commission services emphasised the importance of rolling out the VoP service by 9 October, referring to the co-legislators' objective that the service has to be offered together with the service of sending instant credit transfers in euro. In this regard, the representative of the European Payments Council (EPC) noted that membership for payment service providers (PSPs) to its VoP Scheme has been opened in March 2025 and also updated the group on other important developments linked to the services of Routing and Verification Mechanisms (RVMS) and, more generally, to the forthcoming rollout of the VoP scheme.

A consumer representative reported to the group a rise in payment fraud cases occurring over the Whatsapp messaging app as well as a rise in bank impersonation fraud. The Commission services noted that prevention of and liability for payment fraud are at the core of ongoing negotiations on PSD3/PSR package. A representative of PSPs observed that imposing liability only on PSPs would not be an effective solution if no appropriate obligations are placed on platforms and telecom service providers who should also play a role in prevention of payment fraud. Another representative of PSPs drew attention to a workshop of European Payment Institutions Federation (EPIF) promoting cross-sectoral collaboration to tackle payment fraud and noted the willingness of his organisation to participate in such initiatives regardless of whether they are mandated by legislation or not. The Commission services expressed support for the idea of cross-sectoral collaboration to prevent fraud.

A representative of acquirers mentioned a recent call by one of the European central banks to strengthen capabilities of offline card transactions. A representative of merchants enquired about the recent communication by DG CNECT related to a study on offline mobile phone payment options and also drew attention to the communication from the UK PSR on proposed remedies on scheme fees. The Commission services clarified that the DG CNECT study is in its initial phase and its aim is to inform the digital euro and eIDAS frameworks and to better understand the obstacles in the offline payments space.

A member of PSPs called for a greater coordination and leadership by European institutions on promoting pan-European payment solutions.

3. INSTANT PAYMENTS @ POS

Co-rapporteurs of the subgroup of PSMEG on instant payments at point of sale (IP @ POS) presented the initial report of the subgroup. The work consists of two parts: (i) identification of obstacles (in the inter-PSP space, institutional and legal framework space) for the use of IP @ POS and (ii) reflecting on possible approaches to overcome those obstacles. Obstacles were prioritised based on the urgency of the obstacle to be solved and on the expected positive impact for uptake of IP @ POS. Work of the subgroup is still ongoing, ideas on obstacles and recommendations are “work in progress”; the report to be finalised over the summer, also taking into account feedback from other members of PSMEG.

The top ten obstacles identified by the subgroup:

1) Lack of detail on (technical) integration. Main issues include, for NFC-based instant payments, access to NFC kernels (due to market fragmentation) and the lack of access to a Secure Element (SE). Another problematic area is absence of common ‘governance roaming' rules between different IP@POS solutions for authorisation, IBAN tokenisation, cross-currency conversion and settlement of funds.
2) Lack of advanced SCT Inst features. This pertains to the lack of standards at the level of the SCT Inst Scheme to enable advanced use cases of IP @ POS, such as pre-authorisation, refunds / reversals, payment initiation.
3) Obstacles related to legislation. The examples include remaining burden for PSPs in relation to transaction screening against international sanction lists; the refund obligation in the Instant Payments Regulation which prevents PSPs from performing a “retry” and insufficient possibility for SCA exemptions based on transaction risk analysis.

4) SCA friction. Most POS payment use cases require a very fast and easy to use payment flow, which does not go hand-in-hand with the friction caused by many SCA procedures.
5) Different legal requirements applicable to instant payments and card payments. This pertains to areas such as rules on business model / compensation mechanism, possibility of blocking of funds ahead of a transaction, granting instant payments at POS the same treatment as that of cards (under FATF Rec 16), etc.
6) Competing projects. In view of the sub-group, the lack of a common roadmap and agreement of the fit of the digital euro in the payments ecosystem causes uncertainty for all parties concerned. Especially the development and successful roll-out of private IP @ POS payment solutions is hindered by uncertainty among potential participants on the demand and supply side where to invest resources.
7) Consumer and merchant awareness. This pertains to raising consumer and merchant awareness of IP @ POS via a distinctive and universally recognisable mark (e.g., like the contactless symbol).
8) PSD2 API issues. Open banking regulation should be minimal and technology agnostic, it should stipulate the desired outcome, i.e. "what", whilst leaving "how" to the market players. NCAs should enforce it more swiftly and more comprehensively, i.e. full implementation of all EBA guidance and opinions and sanctioning of non-compliance.
9) Lack of interoperability (from the issuer perspective); similar in some respect to obstacle No 1.
10) Non-zero payer fees. In some jurisdictions issuer ASPSPs charge a retail account holder a per transaction fee for a regular credit transfer (always or limited to specific use cases) and, therefore, also can charge a fee for an instant payment (IPR stipulates that the ASPSP cannot charge a higher fee for an instant payment than or a regular credit transfer). To the sub-group's knowledge, for debit card payments ASPSPs do not charge a cardholder any per transaction fee for making a debit card payment. In view of the sub-group, if ASPSPs charge a per transaction fee for an instant payment-based POS payment this would clearly constitute a severe competitive disadvantage since consumers would clearly prefer using the (free) debit card.

Members of the group discussed the abovementioned obstacles and the proposed recommendations to address them. The chair invited the group to present the final report at the next meeting of PSMEG.

4. REVIEW OF CROSS-BORDER PAYMENTS REGULATION

The topic was discussed in the follow up call of the group on 27 May 2025.

Presentation by representative of consumers

The presenter gave a short summary of key requirements of the Cross-Border Payments Regulation (CBPR). He observed that the provision requiring equality of charges for cross-border transactions in euro and domestic transactions in local currency is working well and has led to a sharp decrease in fees paid by consumers. However, the obligation to disclose full cost of a currency conversion before a payment is made sometimes is not always complied with. He also questioned why the percentage mark-up mentioned in the electronic messages varies from one transaction to another, which is confusing to consumers.

Commission services confirmed that they would be carrying out a study to review the impact of CBPR, which does not mean that there would necessarily be a revision of the regulation.

Presentation by representative of SWIFT

The presenter gave an update of SWIFT's research on the speed of cross-border payment transactions. The end-to-end speed of cross-border payments is affected by local regulations, capital controls, FX, sanctions compliance, opening hours, batch processing or market practice. Various notions of transaction speed were analysed, such as full end-to-end transaction elapsed time (entire duration that includes weekends and holidays), inflight elapsed time (the time from transaction initiation until delivery to the Beneficiary Bank which includes weekends and holidays), creditor agent elapsed time (the elapsed time from delivery to the Beneficiary Bank until the final status update, which is important because research showed significant 'last-mile' friction before payments are credited to end customers) or processing time (the sum of processing times of all transaction participants, which considers essentially only opening hours).

As regards wholesale payments (>100k USD), today 90% of them are delivered between banks within an hour, but only around 50% are credited to the beneficiary's account within an hour (due to the last mile friction), i.e., still bellow the G20 target of 75% of cross border payments to be credited within one hour.

As regards all payments (both wholesale and retail), today 90% of them are delivered between banks within an hour, but only around 43% are credited to the beneficiary's account within an hour (due to the 'last mile' friction), i.e., still bellow the G20 target of 75%. Research showed that high value payments are processed faster than low value payments; a possible explanation for this could be that large corporates are better known to financial institutions, resulting in less AML-related friction. Also, analysis of end-to-end speed based a on receiving country showed a great variation, suggesting that 'last mile' friction is more prominent in certain countries. Three countries already today reach the 75% target, however, there are jurisdictions where this metric is bellow 10%.

Following the presentations, members of the group discussed the positions and views expressed by the presenters.

5. CARD NETWORK FEES AND PRACTICES

Presentation by a member of the group appointed in a personal capacity

The presenter referred to his academic work assessing the effects of interchange fee reductions on participants in the four-party schemes, via specific different transmission channels. Among them, he focused on the claim that lower interchange fee, when combined with no or minor changes to the aggregate level of scheme fees, would provide more incentives for issuers and acquirers to develop more cost efficient new payment instruments which would lead to more innovation and competition in the payments market.

He argued that this claim was not supported by the reality. According to him, four-party international card schemes in practice resemble five-party schemes, with the 5th party being the payment organisation and that the growth in transaction volume of those schemes in Europe in recent years outpaced the growth in retail sales growth overall. He also argued that scheme fees have become higher and much more complex, but European issuers and acquirers could not easily cease their participation in the schemes due to the latter's strong presence / network effects. He also noted that the service provided by the schemes to the PSUs is of a high level. As possible remedies, he referred to regulation of scheme fees or enabling greater competition via, for instance, account-to-account payments, mobile initiated credit transfers or open banking payments. He referred to some additional measures that could be helpful in addressing the situation, such as allowing for surcharging by merchants (which could serve as a communication tool to consumers and could increase bargaining power of merchants vis-à-vis the schemes), creating space for alternative business models beyond the five-corner card model (e.g., direct cost-based pricing for payers), preserving the role of physical cash by defending its status as a means of payment, maintaining a positive and open stance towards projects like the public digital euro, other EU CBDCs, and privately issued stablecoins, advancing access to central bank accounts for non-bank PSPs, and prioritising competition and innovation for the benefit of consumers and businesses.

<u>Presentation by representative of MRC</u>

The presenter referred to several issues, including the impossibility for most merchants to negotiate interchange fee rates, the methodology for calculating the interchange fee rates being unclear, smaller merchants not realising the benefits of the pricing that encourages reduced transaction risk, the disparity between the rates negotiated by major merchants and those offered to smaller merchants, significantly higher rates for cross-border interchange fees than the rates charged domestically, the level and rate of increase in the scheme fees (which is not justifiable considering the backdrop of increasing economies of scale of the schemes), impossibility to apply surcharging (which leads to cross-subsidisation by non-card users of those that use cards), blending of merchant service fees which impairs lowest cost routing and ability to negotiate, use of mandated or preferred scheme services, difficulties in dealing with high volume of notifications / bulletins issued by the schemes and insufficient notice periods for implementation of changes.

<u>Presentation by representative of EuroCommerce</u>

The presenter argued that the position of Visa and Mastercard have a negative impact on European businesses via increasing scheme fees, unilateral implementation of scheme mandates, while domestic schemes and new entrants are forced to introduce or increase scheme fees in order to fight for issuer preference. He referred to (i) specific issues linked to interchange fees, such as difference between card present and card not present (where SCA has been applied successfully), difference in pricing for domestic and inter-regional transactions, reclassification of debit cards as deferred debit and subsequently treated as credit cards, allowing for high interchange fee to be applied, (ii) significant increases on scheme fees raising question of underlying value or cost justification, related lack of transparency, (iii) converting four-party schemes into three-party just to stay out of the interchange fee caps, (iv) unfairness of having a percentage based price, (v) the misuse of limited network exemptions, e.g., meal vouchers, (vi) mandates whereby the schemes force merchants to follow certain procedures by significantly raising non compliance fees.

The presenter called for the Commission therefore not only to focus on interchange, but acknowledge that total card acceptance costs have significantly increased since IFR through ‘waterbed’-type actions by issuers and schemes, to update IFR to cover the full costs of card payments, remove surcharging bans (in the absence of evidence that they enhance competition) and remove the member state option of a complete surcharging ban. The presenter also referred to the growing share of interchange income from commercial cards, increase in scheme fees especially driven by acquiring scheme fees, complexity of scheme fees which are difficult even for acquirers to understand. The presenter referred to actions being taken by Australian, UK and US regulators. He also argued that in the context of financial literacy and informing consumers, the merchants should have the right to surcharge.

In terms of enhancing resilience of payments, the presenter emphasised the importance of preparing for possible payment system disruptions. He suggested possible payment alternatives to international card schemes, such as accepting domestic schemes in markets that don’t have a domestic card scheme, rolling out domestic e-commerce solutions to in-store (e.g. BLIK, TWINT, MB Way already could be used in stores), using “Pay-By-Link” functionality at POI to leverage instant payments (e.g. SEPA Request to Pay scheme), setting up one-off SEPA direct debit functionality for use in e-commerce and in-store, or using cash. He also noted that the EU already has many of the necessary building blocks, like TIPS clearing and settlement infrastructure, open standards of the SPAA scheme and Nexo or Berlin Group, European standard being created for QR codes for mobile initiated payments, CPACE kernel. According to him, it is important to have one standard European ‘payments road system’ infrastructure in place as soon as possible. Whether public or private ‘vehicles’ drive on that infrastructure should be left to the competition and value-added services. The presenter also called for the EU to pursue Payment Services Union in order to achieve more effective and efficient supervision, enforcement, competition and consumer protection in the area of payments.

Presentation by representative of Payments Europe

The presenter argued that card fees should be discussed considering the value of the service that is being provided.

In the last two years, Payments Europe commissioned surveys of end users, both merchants and consumers, to understand what they want and think about different payment methods available and the evolution in the market. Results showed that merchants and consumers believe that the payments market is diverse and the needs of consumers and merchants are served. 91% of merchants thought that digital payments are critical for their organisation, while believing that their cash-generated turnover would decrease by 10% in the next five years. 83% of consumers relied on digital payments in the last 12 months and 61% of consumers supported mandatory acceptance of digital payments. A high number of merchants thought that the availability of different payment methods helped increase their turnover, that contactless payments have been beneficial for their business and that more transactions would be made as instant payments over next 12 months. Majority of consumers equally said that they expect to make more instant payments in the future. Overall, the vast majority of both merchants and consumers said that they were happy with the payment options currently.

In terms of the most important features when choosing between payment methods, merchants and consumers mentioned safety and security being the top feature. On the merchant side, cards were seen as the best payment instrument for preventing fraud. On the consumer side, they also perceived cards as secure and safe. According to the surveys of Payments Europe, the vast majority of merchants preferred cards over other payment methods.

The presenter recalled that there are different entities involved in in a card transaction: issuers, acquirers, schemes. Different components of fees travel between different entities to balance economic interest and value features that are offered to the end users. When merchants were asked to prioritize the features that are the most important when accepting a payment instrument, safety and security was on top, whereas the cost of acceptance as such was only the top 5th priority (other aspects such as consumer preference, the consumer reach or convenience were ranked higher). When asked about card fees, 83% of the merchants said that they paid reasonable fees for card payments while some 80% indicated that the value of the card payments outweighed the cost. Hence, according to the presenter, the fact that the price of a service or card acceptance goes up or down, is a natural development in the market. According to the presenter, the survey indicated that the change in card fees was in line with the change in perceived value.

Following the presentations, members of the group discussed the positions and views expressed by the presenters.

6. ARTIFICIAL INTELLIGENCE IN PAYMENTS

The topic was discussed in the follow up call on 27 May 2025.

Presentation by representative of EBA Clearing

The presenter focused on the use of AI by EBA Clearing for the purposes of fraud prevention. She referred to increase in account-to-account payment fraud in the EBA Clearing's payment systems in recent years; fraud rates in relation to instant payments many times higher than rates observed for regular credit transfers. Application of the VoP service should help control misdirected traffic but is not expected to address all types of fraud. According to the presenter, AI and analytics can improve fraud detection but requires data and collaboration to be effective. To improve fraud detection and prevention by PSPs, EBA Clearing developed Fraud Pattern and Anomaly Detection tool relying on some 30 risk indicators, some of which are rule-based and others AI-based. PSPs could use those indicators, both prior to executing transactions and for purposes of post-transaction investigations, in combination with their own information (for some of PSPs this led to 35% improvement in fraud detection).

The ensuing discussion in the group covered various topics such as reasons for a higher fraud rate for instant payments than regular credit transfers, compliance with GDPR, expected effectiveness of the VoP service and others.

Presentation by representative of EMA

The presenter referred to the survey of members of EMA which showed that they use AI in a number of areas, such as customer service (100% of the surveyed members), AML /

fraud detection, KYC / onboarding, internal automation, and payments optimisation / transaction routing. Top reasons for using AI included customer experience, improvement of efficiency, competitiveness / market positioning, and cost reduction.

In the area of product innovation and personalisation, AI was used for delivering financial insights, recommending tailored products, enabling budgeting tools. In the area of internal automation, it was used to supplement judgment-based tasks, for streamlining compliance workflows, code generation, and internal reporting tools. In the area of payments & treasury operations, AI was used for forecasting liquidity needs, optimising FX hedging, improving transaction routing. In the area of customer support, it was used to triage queries, automate responses, and assist agents with documentation, which for some members led to 50% reduction in claim resolution time. In the area of fraud detection & AML, it was used for identifying suspicious transaction patterns, behavioural risk scoring, chargeback prevention. In the area of KYC & onboarding, it was used for verifying identity documents, detecting forgeries, automating onboarding risk checks. In the area of recruitment & HR, it was used for screening CVs, matching candidate profiles to job roles, automating scheduling. For a greater use of AI challenges faced by the industry related to diverging definitions of high-risk AI across jurisdictions, varying expectations around model explainability and transparency, lack of coordination across overlapping legal frameworks, speed of technological evolution (making firms struggle to decide when to adopt AI tools as AI capabilities evolve faster than regulation or internal processes). This fragmentation created duplicative compliance burdens and hindered cross-border AI scaling, especially for firms who need to tailor implementations to each local regulatory expectation.

The presenter noted that criminal tactics also evolve and increasingly rely on AI, e.g., by using generative AI to create more convincing scams, including deepfake identity documents, synthetic voices, and impersonation-based frauds such as romance or CEO scams, to bypass traditional controls in onboarding, KYC, and transaction monitoring, making it harder for firms to detect malicious activity in real time.

Presentation by representative of BBVA

The presenter noted that a lot depends on the definition of AI and that depending on the definition, almost all processes used in a payment transaction may involve AI technology. At check out, advanced AI could improve UX personalisation, payment methods and source of funds selections, loyalty/discount schemes. In payer – payer’s PSP interaction, AI could improve authentication, dynamic limits / caps, credit services (like BNPL), or smart planning. In payee – payee’s PSP interaction, AI could improve cash management, smart accounting, smart planning, chargeback management, invoice / billing automation, reconciliation. In the inter-PSP space, AI could improve fraud prevention, routing optimisation, liquidity management, reconciliation, predictive failure management, information sharing. Across all payment chain, AI could be usefully utilised for the purposes of cybersecurity, fraud detection, AML-CFT, onboarding, customer support and regulatory compliance. The main challenge is not whether AI should be used, but how to use it wisely, transparently and in the way that creates value to PSPs and their clients.

In the ensuing discussion members of the group discussed the impact of greater use of AI on less digitally savvy payment service users, including consumers and merchants, as well as use of AI for tools such as agentic AI / commerce.

7. A.O.B.

At the meeting of 3 April, Commission services informed the group about the study of Commission Services (DG CNECT) on offline transactions and the access by the contractor to the relevant stakeholders in the payments market. Email to be circulated after the meeting with contact details of the relevant Commission services experts and the contractor should members of the group want to obtain more information or have interest to participate in the study.

In the follow-up call of 27 May, a representative of third party service providers expressed concerns about forthcoming deadline to implement the VoP service, referring to the need of a more harmonised approach for certain payment use cases. Commission services clarified that the VoP implementation topic would be discussed in the forthcoming meetings of ERPB (Euro Retail Payments Board) and EFIP (European Forum for Innovation in Payments), and also invited members to convey any additional implementation questions to the Commission services' attention, without waiting for the 9 October deadline. A member of the payments industry asked about the state of play of adoption by the Commission of Implementing Technical Standards under IPR pertaining to reporting of the information on pricing of credit transfers and instant payments. Commission services clarified that the expected date of adoption of the ITS is in Q3 2025 and stressed that while the date of the first reporting is postponed until April 2026, PSPs are expected to collect data going back to October 2022 which would have to be submitted on the date of the first reporting.