European Economic
and Social Committee

INT/920
Retail Payments Strategy

OPINION

European Economic and Social Committee

Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on a Retail Payments Strategy for the EU
[COM(2020) 592 final]

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Legal basis	Article 304 of the Treaty on the Functioning of the European Union
Section responsible	Single Market, Production and Consumption
Adopted in section	02/03/2021
Adopted at plenary	24/03/2021
Plenary session No	559
Outcome of vote (for/against/abstentions)	267/2/8

1. Conclusions and recommendations

1.1 Payments are at the forefront of the digitalisation of financial services, and frictionless payment methods are crucial for entrepreneurs and merchants in allowing them to successfully start up and grow their businesses. COVID-19 has accelerated the trend towards cashless and e-commerce payments and increased the need for retailers to adopt omnichannel tools to accept offline, online and mobile-based payments. Adopting these tools, which requires investment in IT systems and hardware, is putting an additional burden on small and medium-sized retailers in particular.

1.2 The EESC shares the Commission's view on the strategic importance of payments and that further work is needed to enable payment transactions within the single market using new home-grown, pan-European payment solutions. The EESC supports the view that the Commission should act as a political catalyst, whilst it is the private sector that should design the innovative digital payment solutions.

1.3 The EESC emphasises that cash remains consumers' preferred means of payment for their point-of-sale and person-to-person retail transactions. Cash is crucially important for social inclusion, and access to basic services.

1.4 The EESC supports the view that a digital euro should be complementary to existing central bank liabilities, that it should not seek to crowd out the private sector, that the private sector should have a role in distributing solutions related to the digital euro and that users' rights and obligations must be clearly defined. Privacy of transactions as an important right of the user should be considered along with other features, similar to those of cash.

1.5 The EESC calls on the Commission to:

1.5.1 Prioritise actions and efforts, given the high number of key actions identified in the strategy.

1.5.2 Reduce the current uncertainties as regards a sustainable business model for instant payments.

1.5.3 Consider as premature any legislative action on the area of payment instruments. The EESC prefers to let market players develop suitable products for customers, and consider legislative action if no suitable solutions are found.

1.5.4 Ensure full enforcement of the SEPA Regulation by the Member States, particularly when it comes to lack of compliance by payers and payees with Article 9 (so-called IBAN discrimination), whereas EU consumers should be able to use a single payment account for euro transfers and make cross-border euro bank transfers within SEPA just as easily as within their home country.

1.5.5 Focus its efforts on interoperability among existing and nascent e-ID solutions; it feels that the private sector, together with the authorities, should be better enabled to create e-ID solutions, to be used partly to carry out Strong Customer Authentication (SCA) for payment transactions. A universally accepted public electronic identity is needed, based on consumers' choice, their consent and the guarantee that their privacy is fully respected.

1.5.6 Harmonise the acceptance of cash at EU level, as this currently differs significantly from one country to another.

1.5.7 Extend data-sharing between different sectors with provisions covering all financial service providers in line with the principles of the General Data Protection Regulation (GDPR)[1] to unlock further benefits for European consumers, as this can promote an innovative and competitive financial sector.

1.5.8 Propose legislation which seeks to secure the right of access under fair, reasonable and non-discriminatory conditions to infrastructure technologies considered necessary to support the provision of payment services.

1.6 The EESC believes that relevant market players should be subject to appropriate legislation, supervision and oversight, ensuring a level playing field among those offering the same services and activities.

1.7 The EESC understands the need to ensure an open and accessible payment ecosystem and to assess the inclusion of payment and e-money institutions in the scope of the Settlement Finality Directive (SFD).

1.8 The EESC welcomes the proposed actions seeking to secure a commitment to reduce the global average cost of remittances to less than 3% by 2030 and encourages the Commission to play an active role in monitoring and ensuring support for the relevant actions defined in the Financial Stability Board's Roadmap for Enhancing Cross-border Payments.

2. Commission strategy

2.1 In its Communication from December 2018, the Commission supported "a fully integrated instant payment system in the EU, to reduce the risks and the vulnerabilities in retail payment systems and to increase the autonomy of existing payment solutions."[2].

2.2 Digital innovation is radically reshaping the provision of financial services. With digitalisation and changing consumer preferences, cashless transactions are increasing rapidly[3]. The COVID-19 pandemic has further reinforced the shift to digital payments and confirmed the vital importance of safe, accessible and convenient (including contactless) payments for remote and face-to-face transactions.

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1 OJ L 119, 4.5.2016, p. 1.

2 COM(2018) 796 final.

3 According to the ECB, in 2018, cashless payments reached 91 billion transactions in the euro area and 112 billion in the EU, compared to about 103 billion in 2017.

2.3 There have been substantial improvements in recent years, mostly thanks to the development of the Single Euro Payment Area (SEPA) and to the harmonisation of retail payments legislation. However, the EU payments market remains, to a significant degree, fragmented along national borders, as most domestic payment solutions based on cards or instant payments do not work cross-border. The dynamism of the European payments landscape shows that there is however a risk of inconsistencies, that requires a clear "governance" framework to underpin the EU retail payments strategy.

2.4 The Commission's objective is that 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 payment solutions which comply fully with the EU's international commitments.

2.5 As payments are at the forefront of digital innovation in finance, implementing this strategy will contribute to the Commission's broader vision for digital finance and to its objectives of removing market fragmentation, promoting market-driven innovation in finance, and addressing new challenges and risks associated with digital finance whilst ensuring technology neutrality.

2.6 This strategy is therefore presented alongside the digital finance strategy for the EU[4] and the two legislative proposals on a new EU framework for strengthening digital operational resilience[5] and on crypto-assets[6]. It is also complementary to the updated retail payments strategy presented by the ECB/Eurosystem in November 2019[7].

3. General comments

3.1 Digital financial services are increasingly important for European consumers and businesses. The COVID-19 pandemic has only increased the importance of digitalisation in societies, including in financial services. Payments are at the forefront of digitalisation of financial services and frictionless payment methods are key for entrepreneurs and merchants in allowing them to successfully start up and grow their businesses. COVID-19 has accelerated the trend towards cashless and e-commerce payments and increased the need for retailers to adopt omnichannel tools to accept offline, online and mobile-based payments. This adoption requires investment in IT systems and hardware, which is an additional burden particularly on small and medium-size retailers.

3.2 The EESC welcomes the support of the Commission to modernise and simplify EU merchants' payment acceptance facilities through funding and training options. It is important to underline the key role that SMEs play in the European economy. It is a critical sector because about 90% of European businesses are SMEs, and they represent more than 50% of jobs. Small and medium-size businesses can contribute to a strong economic recovery.

4 COM/2020/591 final.

5 COM(2020) 595 final.

6 COM/2020/593 final.

7 https://www.ecb.europa.eu/press/key/date/2019/html/ecb.sp191126~5230672c11.en.html

3.3 The EESC shares the Commission's view on the strategic importance of payments and that a persisting lack of pan-European digital payment solutions that can be used across Europe poses the risk of further market fragmentation, while global players capture the whole intra-European cross-border payments market. Therefore even if European consumers and businesses already have access to efficient, competitive and innovative payment solutions and payment instruments – further work is needed in order to enable payment transactions within the single market through new home-grown, pan-European payment solutions. The EESC supports the view that the Commission should act as a political catalyst, whilst it is the private sector that should design the innovative digital payment solutions.

3.4 The EESC believes firmly that instant payment solutions are paramount. However, it calls on the Commission to clearly prioritise actions and efforts given the high number of key actions identified in the strategy. Some of the key actions and the overall objectives of the Retail Payments Strategy, in particular the objective of home-grown, pan-European payment solutions, will require considerable efforts on the part of the industry in order to materialise. The EESC considers that any additional requirements and regulatory projects should be carefully assessed.

3.5 The EESC calls on the Commission to pay particular attention to instant payment fraud levels and take appropriate action if necessary.

3.6 The EESC insists on the urgent need to improve digital skills and literacy through education and training. This must be done partly by building on the Digital Competence Framework and encouraging Member States to improve lifelong education for the skills that will be most in demand, at all levels of education. The goal is to ensure that individuals become data-savvy actors, with greater awareness of and control over their data, big data applications and data governance, and understand their digital environment and its risks (e.g. personalisation).

3.7 The EESC would like to prevent consumers becoming "disconnected" and prone to financial exclusion because of a lack of digital skills or tools, which is a clear risk among the growing number of older people in Europe.

4. Specific comments

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

4.1 The EESC strongly supports efforts to equip the European payments market with several home-grown, pan-European payment solutions. These should bring added value to consumers and businesses as end users, should enable European market actors to better compete with currently dominating market actors and emerging and possibly dominant markets actors, such as BigTechs, and would enhance the international role of the euro. Given the current market situation and the well-established position of the incumbents in the card market, creating such a pan-European payment solutions would be a major undertaking for the European payments industry.

4.2 The EESC supports the idea of analysing the possibility of using direct debits across Europe for payments in shops. The electronic direct debit (ELV) model, which is widely used in Germany, could be extended. This would expose market-dominant card schemes to competition on the basis of direct debit (SEPA Direct Debit).

4.3 In order to enable the development of pan-European payments solutions based on instant payments, it is essential for market actors to have clarity regarding the business model. Without this, investment decisions cannot be expected to be made. The EESC calls on the Commission to reduce the current uncertainties as regards a sustainable business model for instant payments.

4.4 In terms of the number of Payment Service Providers (PSPs) offering euro-denominated instant payments and signed up to the SEPA Instant Credit Transfer scheme (SCT Inst), there is already good coverage of PSPs in particular in the euro area. However, it is not yet sufficient to achieve full coverage of instant payments. The market is striving to increase the levels of adherence of PSPs and to have broader coverage and provision of instant euro-denominated credit transfers. The EESC supports measures that seek to address amongst others the adherence, interoperability and other issues arising from the widespread use of SCT Inst, including issues related to consumer protection.

4.5 The EESC agrees with the Commission that end-user solutions should be interoperable and accessible, add value and meet the needs of a broad range of users and have features equivalent to other, corresponding payment instruments. The EESC considers that it is premature to ponder any legislative action in this area and that it is preferable to let market actors led by existing market competition develop suitable products for customers and contemplate legislative action if no suitable solutions are found.

4.6 The EESC fully agrees with the Commission on the need to ensure full enforcement of the SEPA Regulation by Member States, particularly when it comes to lack of compliance by payers and payees with Article 9 (so-called IBAN discrimination). As laid down in Article 9, EU consumers should be able to use a single payment account for euro transfers and make cross-border euro bank transfers within SEPA just as easily as within their home country. However, many operators today still refuse cross-border direct debit requests from customers with non-domestic IBANs or even SEPA credit transfers to non-domestic IBANs. This is a major barrier to the Single Market and limits the ability of customers to access cross-border services. Member States should be called upon to take a stricter stance to enforce this regulation which has been in force since 2014.

4.7 Electronic identity solutions (e-ID) are an essential part of digital services, including financial services. eIDAS has been a first step in enabling cross-border recognition and usage of nationally recognised e-ID schemes. However, it is clear that the current eIDAS framework is not sufficient and cannot achieve the needed outcomes. A universally accepted electronic identity is needed, based on consumers' choice, their consent and the guarantee that their privacy is fully respected. The EESC encourages the Commission to focus its efforts on interoperability among existing and nascent solutions and believes that the private sector, together with the authorities as in the Nordic countries, should be better enabled to create e-ID solutions, to be used partly to carry out Strong Customer Authentication (SCA) for payment transactions.

4.8 Widespread acceptance of digital payments is an essential part of a modern payments market. The EESC supports measures to assess the level of acceptance of digital payment means by merchants, and find ways to increase and facilitate this acceptance, especially by SMEs and smaller merchants. For society at large, it is crucial to preserve access to and ensure acceptance of cash. However, the same is true for digital means of payment as consumers should be given the choice.

4.9 The EESC emphasises that cash remains the most preferred payment instrument by consumers for their point-of-sale and person-to-person retail payments, as demonstrated by the European Central Bank's recently published 'SPACE' study[8]. The characteristics of cash differ greatly from those of digital payments. Cash is the only payment instrument which protects privacy. Cash is public money for which the central bank is liable. Should all electric and electronic devices go black (a 'digital coronavirus'), it will be the only remaining solution in terms of means of payment in the economy. In addition, cash is crucially important for social inclusion, and access to certain basic services. The Commission and the ECB should look very closely at the issues of access and acceptance of cash, taking appropriate measures if needed.

4.10 One of the consequences of the COVID-19 crisis has been that many retailers have decided (temporarily) not to accept cash. As indicated by the Commission, cash is legal tender ensured by the Treaties. The evolution in the use of cash should be demand-driven. Rules on acceptance of cash are different from one country to another. There is a need for harmonisation at EU level.

4.11 Given the ongoing developments, it is understandable that the ECB is studying the possible issuance of a digital euro and that the Commission is supporting these efforts. The impact of a digital euro could potentially be unprecedented, and should be assessed very carefully. The EESC supports the principles put forward by the ECB, namely that a digital euro should be complementary to existing central bank liabilities, that it should not seek to crowd out the private sector, that the private sector should have a role in distributing solutions related to digital euro and that users' rights and obligations must be clearly defined. Privacy of a transaction as an important right of the user should be considered along with other features, similar to those of cash. The same approach should be valid for any CBDC (Central Bank Digital Currency) initiatives in EU Member States, outside the eurozone.

Pillar 2: Innovative and competitive retail payments markets

4.12 The implementation of the second Payment Services Directive (PSD2)[9] has been a major undertaking for the payment services industry and is still partly ongoing. PSD2 introduced two major changes: the introduction of Strong Customer Authentication (SCA) and Third Party Provider (TPP) access to payment accounts. In some instances in particular with regard to SCA

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8 Study on the payment attitudes of consumers in the euro area (SPACE), December 2020.

9 OJ L 337, 23.12.2015, p. 35.

for e-commerce transactions, the implementation deadline was the end of 2020. The EESC urges the Commission to examine in detail the impact of PSD2 before proposing a review.

4.13 The EESC supports moves to build an 'open finance' framework for Europe. Open finance has the potential to unlock further benefits for European consumers as it can promote an innovative and competitive financial sector. The EESC believes that a broad open finance framework cannot be built on the basis of the same principles as PSD2, as this directive deals only with payment accounts and payment services providers and provides for one-sided data sharing by part of the market. There is a need for a specific text covering all financial services providers in line with the principles of the General Data Protection Regulation (GDPR)[10] and to explore the potential to extend data sharing between different sectors. The Communication on digital finance strategy[11] indicates that the Commission will make this proposal by mid-2022.

4.14 Contactless payments have become increasingly common and are important in the current COVID-19 pandemic context. In most countries, the maximum amount(s) for contactless payments were increased during the first stages of the pandemic, in many cases to the maximum allowed by PSD2 (EUR 50 per transaction and EUR 150 euros cumulative), as a reaction to requests from merchant communities in particular. Any change in these legal maximum amounts as part of a PSD2 review should be carefully assessed to balance ease of use with security and liability considerations.

4.15 The EESC agrees with the Commission that as part of the PSD2 review, the risks stemming from currently unregulated services should be brought within the scope of legislation. Such providers, ancillary to the provision of regulated payment or e-money services, remain outside the regulated perimeter while being major market players. The EESC understands that whenever they are very relevant to market dynamics and are perceived by customers as providing a payment service, they should also be regulated and supervised as payment service providers. It is important that all relevant market actors be subject to appropriate legislation, supervision and oversight, ensuring a level playing field among those offering the same services and activities.

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

4.16 The EESC understands the need to ensure an open and accessible payment ecosystem and to assess during the review of the Settlement Finality Directive (SFD)[12] whether it would be beneficial to extend the directive's scope to include payment institutions and e-money institutions in order to allow them to directly access payment systems and infrastructures such as TARGET2 and TARGET Instant Payment Settlement (TIPS). The EESC emphasises the need to safeguard the security and integrity of major payment systems. This will be even more important should the directive's scope be extended during the PSD2 review to market actors currently not covered by the legislation, such as technical providers. Again, this emphasises the

10 OJ L 119, 4.5.2016, p. 1.

11 COM(2020) 591 final.

12 OJ L 166, 11.6.1998, p. 45.

need to guarantee that all parties have access under the same conditions on a level playing field basis.

4.17 The EESC fully supports the Commission's objective of proposing legislation which seeks to secure right of access under fair, reasonable and non-discriminatory conditions to infrastructure technologies considered necessary to support the provision of payment services. Currently some important technologies supporting the provision of payment services, such as the Near Field Communication (NFC) antenna on some mobile devices, have restricted access, which has the effect of limiting competition in the area of contactless mobile payments, forcing banks to pay a fee to a third party for simply allowing a consumer to use a technology (like NFC) for their everyday payments. Those fees paid by banks may in some cases be subsequently passed on to the consumer. While this issue has already been tackled in some Member States, it is important to take this up at European level in order to allow all EU citizens to benefit from increased competition in this area, enable a level playing field for PSPs, and increase widespread adoption of mobile contactless payments. The legislation should ensure that all participants have the same rights and obligations and are subject to the same licensing and other regulatory requirements.

Pillar 4: Efficient international payments, including remittances

4.18 The EESC agrees with the importance of improving global cross-border payments and the actions identified by the Commission, such as promoting the adoption of global international standards for payments, like the SWIFT gpi (Global Payment Initiative) and ISO20022, that improves cross-border payments across the corresponding banking network.

4.19 Remittances remain the most expensive type of payments. The EESC welcomes the proposed actions which seek to secure a commitment to reduce the global average cost of remittances to less than 3% by 2030 and encourages the Commission to play an active role in monitoring and ensuring support for the relevant actions defined in the Financial Stability Board's Roadmap for Enhancing Cross-border Payments. Fees can disproportionally harm those financially disadvantaged. Competition and technology advances have already helped improve access to quicker and less expensive means of cross-border remittances, but much remains to be done. For remittance operators working to/from countries in the EU's neighbourhood, better access to the EU-based payment infrastructure may provide a basis for cost reduction.

Brussels, 24 March 2021.

Christa SCHWENG
The president of the European Economic and Social Committee

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