

Ecommerce Europe's priorities for retail payments in the EU

Payments are becoming a strategic issue in the EU and beyond, from merchants having to adapt to end-users seeking new experiences and solutions, to countries and institutions seeking to leverage the digitalisation of payments to achieve strategic autonomy. With the right technical and regulatory building blocks, those objectives can be pursued together.

This past year has been a pivotal year for payments, acting as a catalyst for key trends such as the digitalisation of payments, the importance of risk reduction and trust, but also the development of regional initiatives. The European payment landscape is rapidly changing, from evolving consumer expectation, the growing number and importance of new players, big and small, on the European market, changes shaped by incumbent actors and the impact of new technologies.

All these changes are taking place against the backdrop of various policy developments at EU level that can create the right conditions for these trends to benefit all. Ecommerce Europe strives for an innovative and competitive cross-border payment landscape that can spur the development of secure, consumer-centric, cost-efficient payment solutions across Europe. Retailers are not only directly impacted by the regulation of retail payments, but they also are in a prime position to understand and provide information on consumers' expectations and behaviour, evolving retail use-cases and the impact of existing legislations on the market. Ecommerce Europe therefore strongly encourages EU policymakers to consider all actors of the payment supply chain – all the way to end-users – when developing or revising legislation that left merchants out of the scope of discussions in the past.

Ecommerce Europe would like to draw attention to core priorities for the e-commerce sector in upcoming discussions at European level.

Consumer experience and expectations in an evolving retail sector

It is crucial for retail payments to focus on users – both merchants and consumers – to deliver solutions that can be widely adopted and adapt to **established omnichannel and mobile commerce realities**. Two of the main drivers behind the growth of e-commerce – and therefore digital retail payments – are the digitalisation of physical shops and the growth of omnichannel commerce, together with the growth of mobile commerce (both web and in-app). These evolutions are accompanied by evolving **consumer demands for seamless, affordable and secure payments**. Consumers are increasingly expecting solutions that can offer minimal friction and redirection, without compromising on the security of their transactions. With the increased digitalisation of services and retail during the COVID19 pandemic, the urgency to invest in trustworthy, easy to-use identification and authentication solutions became all the more apparent. In addition, ensuring a smooth payment experience to consumers and therefore ensuring high conversion rates is crucial to merchants – both in terms of revenue, competitiveness, and long-term consumer trust.

Under the right framework, and with the necessary standardisation efforts, a competitive European retail payment market can deliver the right solutions to address these evolutions

a) *Assessing the impact of Strong Customer Authentication*

When assessing the implementation of the Payment Services Directive 2 (PSD2) in view of the potential re-opening of the Directive, Ecommerce Europe encourages the European Commission to assess **to what extent the development of new services benefited consumers and merchants, in terms of costs and convenience**. Ecommerce Europe welcomes the Regulatory Technical Standards (RTS) on Strong Customer Authentication's objectives to reduce fraud. Monitoring the impact of the implementation of SCA on fraud level will be crucial before deciding to revise those standards in the future. Any changes should be based on thorough consultations with stakeholders, including merchants. Ecommerce Europe remains concerned over the difficult transition to SCA – and the potential impact of resources having been redirected from innovation in customer experience to compliance and managing the transition.

b) *Consumer-centric and omnichannel payment solutions*

Consumer experience across channels is also crucial in the current discussions taking place on instant payment – both within the European Commission and in industry-led projects such as the European Payment Initiative. **Any new payment solutions based on instant payments would have to cover all use cases proposed by retailers (e- & m-commerce, seamless commerce...) and provide a seamless, cost-efficient¹ and secure customer experience**. This will be a determinant factor in the successful roll-out of new solutions. Therefore, Ecommerce Europe encourages the consultation of a wide number of merchants in formalizing new projects.

c) *European Digital Identity*

Finally, **Ecommerce Europe welcomes the European Commission's proposal to develop a European Digital Identity**. We recognize the opportunity that a European Digital Identity Wallet offers in terms of providing specific verified attributes, rather than a rigid set of information attached to existing eIDs. We also welcome the European Commission's call for the development of Codes of Conduct through the industry in order to facilitate the acceptance and usability of an eID wallet. It is crucial to ensure that the acceptance and identification processes remain as easy as possible to perform for business and frictionless for end-users. This should be a key factor when defining technical and operational specifications after the adoption of the proposal. We also encourage new projects such as the European Payment Initiative to explore ways of leveraging digital identity as part of the roll-out a new pan-European solution.

Leveraging digital innovation for retail payments

European policy-makers have the opportunity to further facilitate innovation and the development of the FinTech market in the EU through the ambitious policy agenda set out by the European Commission in its Retail Payment Strategy² and its European strategy for data³.

a) *The role of data in payments*

The application of PSD2 had the ambition to further open the European market to these new players, in order to foster the development of new payment solutions that could match technological advancements

¹ Processing costs for merchants are also increasingly rapidly, not only for card-based payments, but also because of digital wallets and pay-later solutions

² [Communication on a Retail Payments Strategy for the EU](#), 24 September 2020

³ [Communication on a European strategy for data](#), 19 February 2020

and expectations from users. PSD2 has not revolutionized the payment landscape overnight but has opened new opportunities that various actors of the payment chain can rely on.

New players and fintech companies have seized some of the opportunities opened by PSD2 and are driving the digitalization of the financial retail payment sector. New services – such as helping merchants processing and analysing available data to personalize payment options and improve conversion rates or to use customer data profile for Know-you-customer processes – are creating new opportunities for the retail sector that can be further explored. As access to data becomes increasingly strategic for the future of payments and retail, the EU should continue building on the path opened by the PSD2. **Ecommerce Europe therefore calls on the European Commission to ensure that the assessment of the implementation of the PSD2 and its possible revision includes all actors of the payment supply chains all the way to end-users (retailers and consumers).**

The volume of customer data increases and diversifies through trends such as the development of IoT devices and new solutions and services such as data-driven offerings and hyper-personalization are becoming increasingly important. Additionally, data – beyond financial data - is also at the heart of many new technologies driving changes in the European payment landscape. AI-based solutions, for example, are already applied to fraud management, authentication of consumers through biometrics (e.g. voice-activated payments, ...) and will be necessary to address the demand for seamless payments. In order to leverage the data-driven innovation, **Ecommerce Europe supports the EU's efforts towards an open finance framework, coordinated with other pieces of legislation such as the upcoming Data Act and the revision of PSD2.**

b) Central Bank Digital Currency

Another cornerstone of the future of digital payment will be the development of Central Bank Digital Currency (CBDC), and possibly a Digital Euro. A Digital Euro and other CBDC represents a clear opportunity to accompany the digitalisation of the European economy and the growth and evolution of e-commerce. If the right conditions are met and the right features are provided, it could deliver cost-efficient, secure, trustworthy means of payments. The expectations regarding new payment method detailed below also covers key conditions to ensure the uptake of a CBDC like the Digital Euro. There are questions still open that will also require further consultation with stakeholders, including finding the right balance between privacy and the possibility of developing new added-value services. Reflections around a digital currency should also encompass other promising innovation such as programmable money and payments, that will most likely become increasingly important to support the growth of IoT and machine-to-machine payments.

A competitive and transparent payment landscape

One of the key objectives of payment regulations of the past decade (including the PSD2 and the Interchange Fee Directive) was to address the need to foster competition on the European retail payment market, to ensure the development of innovative and cost-efficient payment solutions.

As described above, the PSD2 has not yet led to structural changes in the retail payment market and payment habits. If anything, the COVID19 pandemic has reinforced the positioning of card schemes on the market, with the rise of contactless limits for card-present payments. Though the payment landscape continues to diversify, changes are taking place at a different pace in across the EU, and no payment solutions can at this time compete with international card schemes in terms of European reachability.

A competitive and transparent European payment landscape will also require future legislations to provide for harmonized, channel-neutral EU rules that can create a level-playing field across actors.

a) Instant payment

Ecommerce Europe recognizes the opportunity that instant payment creates. For merchants, new solutions leveraging instant payment can represent a crucial opportunity to make the European market more competitive and allow for the development of new cost-efficient and innovative solutions. In the spirit of technology-neutrality, new instant payment-based solutions would complement merchants' payment offering, and therefore allow businesses to cater to local and cross-border.

Ecommerce Europe believes that the successful uptake of instant payments will be dependent on a transparent, sustainable, and fair business models, relying on the involvement of the whole demand and supply side of the payment market. The transparency and sustainability of the business model of a new pan-European solution, bringing value to all stakeholders, will be an important factor towards ensuring its success. European regulators have a role to play in the development of any new schemes to ensure that all interests are represented, but also regarding practical considerations regarding requirements for governance and business model, for industry roll out, and so on. Any new solutions based on instant payment will also have to take into account and meet the following expectations:

b) Card-payments

An important development potentially requiring further scrutiny, linked to the strong presence of international card schemes on the European market, is rise of costs associated with card payments for merchants. Retailers have already communicated their concerns regarding the limited impact of the Interchange Fee Regulation on the competitiveness of the EU market and the growing impact of scheme fees from major card schemes in EU merchants. In December 2020, CMSPI, EuroCommerce and Zephyr have published a new study⁴ on the impact of scheme fees that confirms that if the IFR resulted in a reduction in consumer card interchange fees for merchants, the increases in other charges have now exceeded the reductions brought about by IFR. According to the study this means that **the average cost of card payments in the EU is now higher than it was when the IFR came into force in 2015, nullifying any benefits previously derived from the regulation.**

In addition to the rise of scheme fees, new card-related fees have been announced, with further effect on merchants and consumers. This includes notably new 3D-Secure related fees, kicking in as Strong Customer Authentication is being rolled out: Fee for the use of 3DS1 doubled from €0.02 cents per transaction to €0.04 cents per transaction from 1st January 2021 for 40 European countries⁵; Introduction of a 0.9 basis point fee for declined transactions; Introduction of the Mastercard Acquirer Exemption Fee (€0.02 cents per transaction); Introduction of a Mastercard Minimum Authorisation Fee of 2,000 EUR per month, applied if more than 30% of authorisations do not go via 3DS.

Ecommerce Europe calls on the European Commission to engage in discussions over questions of transparency and costs of payments. While the European Commission established that no new legislative amendments were required at this stage as regards the IFR, Ecommerce Europe believes that increased card fees should be part of the discussion on the cost of payments for merchants and fair competition between payment methods.

⁴ CMSPI/Zephyre, Scheme Fee Study, available online [here](#).

⁵ In France there has been a three-fold increase to €0.06 cents per transaction (Source CMSPI)

We also encourage the European Commission to consider the costs of payments in relation with the evolution of fraud levels in the EU. Increases in the costs of payments are being applied at a time where fraud levels – which are usually one aspect taken into account to fix fees and differentiate fee structure between online and offline commerce – are expected to go down with the implementation of the RTS on SCA.

Finally, these questions should also be addressed as part of the assessment of the implementation of PSD2 and its possible revision. The varying applications of a ban on surcharging in the EU have made it very difficult for merchants to direct consumers towards more affordable payment options. The ban on surcharging is also linked, in the PSD2 (§ 66), to the expected effect of the Interchange Fee Regulation on the merchant services charge. However, as described above, the benefits of the IFR for merchants have been nullified by the increase in other fees.

c) Level-playing field for payment methods and models

Harmonised and channel-neutral frameworks for new payment methods cementing in the EU also represents a key element for a competitive payment landscape. Ecommerce Europe encourages the European Commission to assess the development and regulation of Buy Now Pay Later models, which are increasingly popular among consumers in the EU. There is early evidence of the development of national rules on Buy Now Pay Later (in terms of the scope of consumer credit regulation, but also in terms of marketing of consumer credit products online) that risks fragmenting the market and creating legal uncertainty for merchants in the EU. Ecommerce Europe proposes to seize the opportunity of the revision of the Consumer Credit Directive to assess the state of play in the EU and potential actions at EU level.