

# **DISSENTING OPINION ON THE FINAL REPORT OF THE ERPB WORKING GROUP ON INSTANT PAYMENTS AT POI**

Based on the rules of procedure of the ERPB's mandate of the working group on Instant Payments at the point of interaction (POI), we are hereby presenting a dissenting opinion, which shall be mentioned in the relevant documents prepared by the group.

## **PREAMBLE**

According to the deliverables of the mandate, the group is expected to take a two-step approach: (i) conduct a stock-taking of existing and planned end-user solutions for SCT Inst-based POI payments and (ii) on the basis of the stock-taking outcome and of the consultative report of the European Payments Council's multi-stakeholder group on mobile initiated SEPA Credit Transfers (MSG MSCT), analyse in detail the barriers to pan-European reach and usability, and determine what would be required to overcome such barriers to enable pan-European SCT Inst based POI payments, focusing in particular on requirements for harmonisation/standardisation/interoperability. This second step would take into account and complement where necessary the Interoperability Implementation Guidelines that are expected to be delivered by the MSG MSCT, first as a draft early Q2 2019, and in their final version thereafter.

## **OUTCOME OF THE STOCK-TAKING EXERCISE**

Many existing and planned end-user solutions for SCT Inst-based POI payments have not been taken into account in the stock-taking exercise. This issue was raised by some WG members, but not considered, leaving these providers out of scope. The missing SCT Inst-based payments solutions are in particular those classified as Third-Party Providers (bank-independent providers), i.e. PSPs regulated under the revised Payment Services Directive (PSD2), specifically Payment Initiation Service Providers (PISPs), which were so far limited to remote POI payments.

## **PSD2 IMPACT ON EUROPEAN PAYMENTS LANDSCAPE BY REGULATED PISPs**

Many payments industry practitioners believe that PSD2 has the potential to be a truly transformative piece of legislation, with the capacity to fundamentally enhance competition in the industry and is an important step toward a digital single market in Europe. PSD2 not only makes payments more secure, cheaper and safer but also opens the door to new market entrants, as well as creates a more integrated and efficient European payments market and levels the playing field for payment service providers (PSPs).

Before PSD2, most SCT-based payment solutions operating at physical POIs needed bank/ASPSP<sup>1</sup> partnerships to access their payment accounts. As such, these solutions were usually part of a local SCT or SCT Inst scheme set up, connected directly to a dedicated SCT clearing and settlement mechanism (CSM) on behalf of, or with direct participation of ASPSPs.

PSD2 is a game changer, because SCT-based payment solutions are now not anymore dependent on bank-proprietary or bank-partnered SCT or SCT Inst solutions.

PSD2 allows non ASPSP-dependant Third Party Providers (TPPs) to provide SCT solutions by relying on the existing inter-banks' CSMs, which is directly accessible through PSD2 access to the account (XS2A) interfaces provided by ASPSPs, and to reach any ASPSP and Payment Service User's (PSU) payment accounts SEPA-wide. As such, many if not most bank-independent PSPs and also ASPSPs themselves, are planning to launch SCT Inst-based POI payments solutions by adopting the PISP role.

PISPs will play a key role encouraging innovation and competition in European payments, so that more and more payers will carry out transactions via PISPs, rather than initiating the payments directly with their bank.

PISPs will also play a key role in strengthening the European banking industry as they help banks to keep customer ownership as well as their funds and payment data in the banking ecosystem, rather than building separate overlay accounts like cards or wallets.

It is therefore, in our view, required to also review in detail the possible barriers PISPs may face in developing their payment solutions.

## PISPs' BENEFITS FOR SCT INST-BASED POI PAYMENTS

Given the technical nature of PISPs, they start from a position ahead of current bank-dependant MSCT providers and do not suffer from some of their key barriers:

- PISP-SCT service providers are SEPA-wide interoperable per se. Thanks to PSD2's XS2A, regulated PISPs can provide SEPA-wide SCT payments from any ASPSP to any other ASPSP without the need of any agreement nor partnership with ASPSPs.
- PISPs are truly open. No additional frameworks are needed for interconnection or standardisation. They rely on the existing interbank infrastructure. Only dependent on interbank SCT Inst scheme interoperability.
- Messages, including data elements between PISPs' backend, are already standardized through SCT Inst scheme's ISO 20022 usage and thanks to the PSD2 API market initiatives, of which there are only a few across Europe: Berlin Group, STET, UK OB, as well as the Czech, Slovakian and Polish initiatives.
- The consumer and the merchant do not need to be enrolled at the same PISP throughout SEPA.

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<sup>1</sup> Account-Servicing Payment Service Providers, as per Art. 4 (17) of (EU) 2015/2366 Directive (PSD2)

## MAIN PISPs' BARRIERS TO BE ADDRESSED AT SEPA LEVEL

The main barriers faced by PISPs to be able to provide user-friendly, competitive instant payment solutions at a physical point of interaction are linked to the following restrictions in ASPSPs implementation of XS2A, which are commonly - if not predominantly - present across SEPA:

1. If the ASPSP has implemented redirection-only authentication then this cannot be used by PISPs at traditional physical POI, because a POI transaction cannot be redirected on the same device when using traditional POI, but requires either an embedded or decoupled process going via the ASPSP's API
2. Not providing the complete list of payment accounts available to the PSU before making a payment
3. Nor providing the PSU with the account balance for available payment accounts
4. Not providing account holder name to the PISP

PISPs usually rely on ASPSPs/banks' SCA (Strong Customer Authentication) procedures rather than having bilateral agreements for delegated SCA.

To compete with cash and card payments in a physical retail environment (POI), these PSD2-stipulated SCA obligations must be as frictionless as possible without discriminating PISPs.

For instance, in the case of face-to-face payments PISPs must be enabled to support physical POI *devices* independent of banks. This means that SCA at a traditional physical POI cannot be done via PSU redirection from the traditional physical POI to a bank website or mobile app, but only via the bank's API, which in turn requires either a so-called embedded SCA or a decoupled SCA.

As a brief reminder:

- Redirection means that the PSU is redirected from the PISP domain to the ASPSP domain to be authenticated (on the same device).
- Embedded SCA means that PSU authentication occurs within the PISP domain (e.g. mobile app) with ASPSP-issued credentials, which are transmitted to the ASPSP and confirmed back by them via their API.
- Decoupled SCA means that PSU authentication occurs on a distinct, potentially different device (e.g. mobile phone) to the transaction device (e.g. POS), by transferring the transaction to the ASPSP via their API, and then finalising SCA on an authentication app, typically the ASPSP's mobile app.

Currently, the vast majority of ASPSPs/banks in Europe are offering redirection-only SCAs, which cannot work on traditional POI terminals and are thereby preventing PISPs from supporting physical POI devices.

We would therefore encourage the ERPB to re-examine the present report and investigate properly the existing and planned end-user solutions for SCT Inst-based POI payments that have not been taken into account in the stock-taking exercise. Indeed, we consider that the

mandate of this group has not been fulfilled given that the stock-taking of existing and planned end-user solutions for SCT Inst-based POI payments is incomplete and does not fully take into account newly PSD2-regulated innovative players like TPPs.

Furthermore, we consider that the recommendation H “The lack of support of certain SCA authentication models involving a PISP ...” cannot be addressed by a multi-stakeholder group, but should rather be addressed by the EC/EBA, which have to clarify that redirection-only SCA implementations are an obstacle to PISPs wanting to offer physical retail payment initiations in current market conditions.

## Final Note

This dissenting opinion is signed by the following group members:

- Eurobits, representing PISPs on behalf of FoEF/ETPPA incl. alternate Members Bankin', PPRO and Tink
- Eurocommerce
- EPIF
- EMA