

Yves Mersch: Promoting innovation and integration in retail payments to achieve tangible benefits for people and businesses

Speech by Mr Yves Mersch, Member of the Executive Board of the European Central Bank, at the American European Community Association, Brussels, 7 February 2019.

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New technologies are transforming the entire economy, our daily lives and also the way we pay. Digitalisation is a strong driver of innovation in retail payments and can help to deliver customer-friendly solutions. In a parallel development, people now tend to expect that services – and payments – should be delivered instantly. At the ECB, we are very much aware of these trends, and we are promoting innovation in our economy by providing new services such as TARGET Instant Payment Settlement (TIPS). We closely monitor all new developments in the market with a view to fostering change.

However, we must bear in mind that increased digitalisation means that more and more of our daily actions are leaving an electronic trail. Data on our actions – including our payment transactions – are not only captured automatically, they are also stored. This means that they can easily be reused for other purposes or, as recent events have shown, misused. Data protection has therefore become a matter of paramount importance. Private data should be sufficiently protected and only used with the consent of and for the benefit of consumers and citizens. In the United States there is an ongoing social and political debate on the subject, while here in the European Union the General Data Protection Regulation was introduced in May last year to that end. The GDPR sets out the rights of individuals, such as the right to request access to their data, the right to receive and forward those data, and the right to be forgotten. The Regulation also places obligations upon entities processing personal data.

In the context of work in Europe on retail payments, protecting users' rights and enhancing the right to data privacy is vital when it comes to developing innovative payment solutions and strengthening users' trust in them. This is especially true for the new payment services introduced in the context of the revised Payment Services Directive (PSD2). With the user's consent, third-party providers of payment initiation services and account information services are able to access payment accounts. Banks and other market participants are currently dedicating considerable effort to the implementation of communication interfaces. The Euro Retail Payments Board (ERPB) – the high-level strategic body that brings together the supply and demand sides of the euro retail payments markets – recommends an easy, secure and, as far as possible, automated solution in the form of a standardised application programming interface (API). To ensure the successful implementation of such interfaces and to bring about their pan-European uptake and reach, the ECB believes that a harmonised and integrated approach is necessary.

Services based on access to a payment account have huge potential, for example where third-party providers offer competitive payment initiation services to merchants or aggregated account information to consumers. Demand for such services is growing worldwide, and several legislative and regulatory initiatives have been introduced to encourage competition and innovation in financial services. Indeed, PSD2 can be seen as a first step along the path towards "open banking". This is an opportunity for EU market stakeholders to shape the work on open banking and to demonstrate that we are able to progress towards that objective – in a coordinated way, for the good of European citizens. Banks should not see third-party access to accounts as a threat. Instead, they can capitalise on their PSD2 investments in APIs and offer value-added services, for example by including in the API other accounts beyond the pure payment accounts covered by PSD2, by offering additional functionalities for payment initiation services, or even by extending the API to other services such as customer authentication. Such value-added services could then be fairly compensated. I believe that such an approach would

be mutually beneficial for banks and third-party providers. For this reason, the ERPB set up a working group to explore the scope for an API access scheme in the Single Euro Payments Area (SEPA), as well as the legal and governance aspects of such a scheme. The group has now started delivering on its mandate. For the working group to be successful, banks should see the evolution towards open banking as an opportunity to renew their innovation strategy and client focus, in a changing global environment.

Instant payments are another enabler for innovative payment solutions. In Europe, the SEPA instant payments scheme and the various processing and settlement arrangements, including the Eurosystem's TIPS service, are all in place. TIPS was launched last year and allows transactions to be settled in central bank money across Europe within seconds. The capacity to transfer funds within a few seconds is a powerful one, and it has great potential beyond traditional credit transfers. However, the market will need to tailor solutions to the specific needs of end users. One highly promising area is the point of sale, or more broadly the point of interaction (POI). For merchants, instant payments at the POI could be a cost-efficient alternative to cards. Such solutions are currently emerging across Europe. It is important to ensure that they have pan-European reach so that end users can make and receive payments without restriction across national borders. To this end, the ERPB set up a working group to analyse in detail the barriers to pan-European reach and usability and ways to overcome them.

Many of the innovative payment solutions introduced over the past few years have been based on the use of card payment schemes. Although payment cards are the most widely used payment instrument in Europe, a true SEPA for cards has not yet been achieved. For example, cardholders cannot use their national payment cards to make payments across Europe unless they go through a global card payment scheme that can execute such intra-European payments. The industry sees the implementation of a European infrastructure for instant payments as an opportunity to instantly clear and settle card transactions, which would offer a possible way of supporting the interlinking and interoperability of national card schemes. Efforts to ensure the interoperability of schemes should be strengthened and should aim to foster a European identity, for example by using a common European logo to show users that their cards can be used across the EU.

Let me now conclude. Digitalisation has brought a great deal of change to the payments market, and there is more on its way. The GDPR and PSD2 have been introduced to protect EU citizens and to support competition in payments. For its part, the Eurosystem is helping to drive innovation and integration in retail payments, not least by providing instant settlement services through TIPS and setting up the ERPB as a forum for high-level market agreements. The main areas for further development are standardised APIs, instant payments at the point of sale, and the interoperability of national card schemes. I look forward to proactive cooperation with the payments industry in these areas, based on joint standardisation and harmonisation.

Thank you for your attention.