Towards an integrated European market for card, internet and mobile payments

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CONTENT: to launch a consultation with a view to facilitating secure, efficient, competitive and innovative electronic payments by card, internet and mobile phones (Green Paper).

BACKGROUND: the Single Euro Payments Area (SEPA) is based on the premise that there should be no distinction between cross-border and domestic electronic retail payments in euro across the EU. The SEPA project covers the key retail payment instruments: credit transfers, direct debits and payment cards. From this basis, SEPA should be a springboard to creating a competitive and innovative European payments market in two ways.

1. The first concerns the **ever-growing proportion of on-line or internet payments (e-payments) and mobile payments (m-payments)**. Above all, the mass take-up of smart phones is changing the payments landscape and is leading to new payment applications, for example electronic purses, replacing wallets and physical cards, or virtual public transport tickets stored in a mobile phone. Here, the pan-European SEPA payment instruments can provide the basis for more integrated and secure payment innovations.
2. Secondly, the **existing standards and rules** developed under SEPA could be re-applied to payment instruments in non-euro currencies, thereby taking the boundaries of a Single Market for payments beyond euro-denominated transactions.

The euro retail payments market is one of the largest in the world and involves millions of companies and hundreds of millions of citizens. According to statistics from the European Central Bank (ECB), **in 2009 almost 58 billion retail payment transactions were made** in the euro area alone. Annual growth rates of the e-commerce market size over the next five years are projected at around 10 %. Average spending per capita at EU level is forecast to rise from **EUR 483 in 2009 to EUR 601 in 2014**.

The economic benefits of integrating this market are substantial. For example, studies suggest that full migration to SEPA for credit transfers, direct debits and payment cards could yield direct and indirect benefits of **more than EUR 300 billion over a six-year period**. The current degree of payment integration at European level varies markedly between the various payment instruments (such as credit transfers, direct debits and payment cards) and channels (e- or mpayments) used to make a payment.

- Payment cards are the most common and frequently used electronic payment instrument for retail payments. In terms of volume (number of transactions), card payments represented a third of all retail payments in 2009. However, integration of the European payment card market is far from complete and tangible results are still limited.
- The lack of a coherent and comprehensive (self-) regulatory framework currently leads to a European e-payments environment that is largely fragmented along national borders with a small number of successful domestic e-payment schemes and a limited number of large international players from outside Europe.
- Market penetration of m-payments in the EU still has considerable unrealised potential, in comparison, for example, to the Asia/Pacific region; the largest and most promising global m-payment initiatives are currently launched outside Europe.

For this vision to become reality for card, e- and m-payments, a number of additional issues need to be addressed, such as security, freedom of choice, unhindered technical and business innovation, standardisation of the various components and interoperability.

CONTENT: this Green Paper assesses the current landscape of card, internet and mobile payments in Europe, **identifies the gaps** between the current situation and the vision of a fully integrated payments market and the barriers which have created these gaps.

The objective of the Green Paper is to launch a broad-scale consultation process with stakeholders to validate or contribute to the Commission's analysis and to help identify the right way to improve market integration.

The main issues dealt with in the Green Paper are as follows:

(1) Market access and market entry across borders: a number of separate issues can be identified in this context. It is important to note that these issues, while historically all stemming from commercial practices for payment cards, either are applied in the same form for e- and m-payments or at least have significant spill-over effects which affect e- and m-payments indirectly, for example when an e- or m-payment is made through the use of a payment card.

The proposal calls for:

- the need to clarify the legal situation as regards the Multilateral Inter-change Fees (MIFs);
- the obstacles to development of cross border acquiring which refers to a situation in which a merchant uses the services of an acquiring PSP established in another country;
- the potential benefits and/or drawbacks of co-badging, a system which combines different payment brands on the same card or device;
- the possibility to separate schemes and card payment processing;
- the need to ensure compliance with the SEPA Cards Framework (SCF);
- the need to establish objective rules describing the circumstances and procedures under which card payment schemes may unilaterally refuse acceptance.

(2) Transparent and cost-effective pricing of payment services: the real cost of these payment services is often opaque, both for consumers and for merchants, which leads to higher payment costs in the EU economy. The lack of transparency mostly applies to the cards market, but links between cards, e- and m-payments have implications for all these payment methods. Furthermore, increased transparency in pricing should be seen as a way to reduce the costs of payment transactions for all parties involved and ultimately optimise costs across the EU for the benefit of payment service users. Another issue related to the pricing of payment services concerns micro-payments, i.e. low-value payments, which by their nature are often made by card, internet or mobile payments. Payment fees are often perceived as excessive, both by consumers and merchants.

(3) Technical standardisation: European payment users (companies, consumers, merchants) will fully benefit from competition, freedom of choice and more efficient payment operations if cross-border interoperability is achieved. This applies to all electronic payments and involves multiple actors in the payment process, depending on the payment method. However, **standardisation** of the various components (e.g. protocols, interfaces, applications, services) needs to be carried out thoroughly23 in order to minimise the risk of foreclosure of potential competitors or innovation.

The question is asked as to whether the use of common standards for card payments would be beneficial and if the current governance arrangements are sufficient to coordinate, drive and ensure the adoption and implementation of common standards for card payments within a reasonable timeframe.

(4) Interoperability between service providers: cooperation is a key requirement in a network industry such as payments, as any payment requires an agreement between the payer's payment service provider and the payee's payment service provider. To ensure that any payment can reach any beneficiary without detriment to the actors and intermediaries involved, a higher level of coordination is desirable in the form of full interoperability.

In line with the Commission's proposal for credit transfers and direct debits, the principle of interoperability could be applied in the cards market, in addition to addressing the obstacles

mentioned above, particularly for the choice of the acquirer and the commercial rules.

(5) Payments security and data protection: the security of retail payments is a crucial prerequisite for payment users and merchants alike. The public consultation on the future of e-commerce in the internal market confirmed this and identified payments security as one of the key hurdles preventing the widespread adoption of electronic commerce.

The continuous replacement of signature-based cards (equipped with a magnetic stripe for card reading) by 'Chip and PIN' (EMV-compliant) cards has helped reduce fraud significantly at the point-of-sale at European level. While this helped to drive down card fraud in physical payment transactions, **fraudulent activity is now increasingly moving to remote card transactions, in particular to payments over the internet**.

A second important issue in this field is data protection. All payment means referred to in this document imply the processing of personal data and the use of electronic communication networks. It is crucial that **authentication mechanisms** for payment transactions are designed from the outset to include the necessary measures to ensure compliance with data protection requirements.

(6) Governance: until now, SEPA has been predominantly run as a self-regulatory project, set up and managed by the European banking industry through the EPC, with the strong support of the ECB and the Commission. With the adoption of the Regulation establishing technical requirements for credit transfers and direct debits in euros a **more active involvement of the EU institutions in the SEPA governance may be useful**. In this context, a more prominent role for the legislative and regulatory oversight through, for example, the ECB, the Commission or the European Banking Authority (EBA) could be considered.

In areas such as creating a proper framework for e- and m-payments, integration efforts have been slow to produce tangible results, thereby delaying interoperability, innovation, increased choice and scale effects. Deadlocks and uncertainties may lead to market participants taking a 'wait and see' attitude. Given the current lack of commitment to such an important initiative for the European economy as a whole, achieving an integrated market requires taking a **comprehensive approach** involving regulation, self-regulation and competition law compliance and enforcement.

All interested parties are invited to submit their views in response to the above questions.