EPC Newsletter Issue 29 March 2016

INNOVATION

Blockchain: a short-lived illusion or a real game changer?

Experts discuss if, and how, blockchain can revolutionise payments

Blockchain has traditionally been a subject of mitigated opinions, due to its early association with bitcoin, the cryptocurrency adopted by techies all around the world, and also used on anonymous markets on the web. As the potential of blockchain is slowly being discovered, it is now getting the full attention of the banking and technology industries. Many major financial and technology organisations are exploring its benefits. For example, more than 40 international banks are part of R3, a New York City-based consortium assembled in 2014 and designed to produce research and development on the usage of blockchain in a financial environment. In December 2015, the not-for-profit, Linux Foundation, launched the ‘Open Ledger Project’, an open-source project bringing together IBM, Cisco, Intel, the London Stock Exchange, and many other organisations striving to build a cross-industry open standard for distributed ledgers. At the same time, the financial messaging company, Swift, introduced a blockchain-based service for business-to-business payments. Other organisations are also already offering services based on blockchain technology, such as Nasdaq, the stock exchange, and Ripple.

Blockchain is said to have the potential to revolutionise payments by making them faster, cheaper, and safer. However, it also raises a number of issues. What is needed to progress on blockchain and make it a reality? Is it even desirable to expand the use of blockchain to the financial industry? In other words, is blockchain a short-lived illusion, or does it have the potential to be a real game changer? To shed some light on the topic, the European Payments Council (EPC) gathered six experts from big name companies in the banking (ING), processing (Equens) and consulting (BCG) industries, as well as disruptive financial organisations (Fidor Bank, Bitpay) and a central bank (Banco de España) to attempt to answer this question.

This article summarises a lively debate that took place during the EPC’s last General Assembly meeting in December 2015. The views expressed in this article are solely those of the speakers and should not be attributed to their organisations, nor to the European Payments Council.

From left to right: Michael Maier (Fidor), Mark Buitenhek (ING), Michael Salmony (Equens), Stefan Dab (BCG), Marcel Roelants (Bitpay), Carlos Conesa (Banco de España), Kaj Burchardi, (BCG-Platinion New York)

A very promising solution

All the speakers agreed that blockchain is a truly innovative technology that has real potential for the payments market. According to Kaj Burchardi from the BCG, the distributed ledger (which is a distributed record-keeping system where independent nodes hold the same version of the ledger record) presents some interesting value-creating opportunities. The group of experts articulated these as:

1) Cost reduction

The increased automation and reduction of manual processes enabled by blockchain reduces costs.

European Payments Council

2) Faster processes

By removing third parties (i.e. automated clearing houses in the use case of payments), delays are reduced. “The expansion of the web 2.0 and social media substantially changes the global landscape. In 2020, it is probable that two billion people will be digital experts. The financial services industry needs to take advantage of this opportunity in order to meet consumers’ expectations for fast and efficient remittances. Technologies like blockchain give the impression that payments are faster. In this perspective, and as everybody is trying to improve payments, blockchain is already a game changer”, explained Michael Maier, from Fidor Bank.

3) Standard creation

Blockchain has the potential to create new protocols and norms, in coordination with regulators.

4) Authentication and security

“Blockchain protects your data and maximises security”, affirmed Marcel Roelants from Bitpay (a bitcoin payment service provider - PSP). With blockchain, each individual holds a unique key, composed of a private part (proof of ownership) to create new transactions, and a public part to verify transactions. If the owner of the transaction wishes to share the proof of ownership, they have to share the private key with other parties. Marcel Roelants carried on: “Blockchain can therefore validate transactions and proof-of-ownership, while enhancing security by reducing reliance on a central ledger.”

“With blockchain, as everyone has the complete copy of the ledger in the network, a hacker would have to hack 51 percent of the chain to change transaction entries”, explained Kaj Burchardi.

5) Creation of new products and channels

Blockchain could bypass existing marketplaces whilst leveraging novel distribution channels.

Use cases for blockchain are growing and are not limited to payments

These assets demonstrate that the use of blockchain could extend beyond payments. According to Mark Buitenhek from ING, “Blockchain has a huge potential. It could have a significant transformative effect in situations where complex information streams come together – such as in the financial sector (trade finance and securities, for instance). Anywhere in which there are complicated exchanges, numerous information flows, a large number of parties involved and a lack of trust amongst those parties, it can potentially simplify the incumbent business model, reduce costs and speed up performance.”

The most promising use is contracts recording. Blockchain can prove that a contract was agreed between two parties without having to reveal the details. This would be especially helpful in countries and situations suffering from institutional weaknesses, for example to record real-estate contracts.

However, blockchain would not be of much use in situations that are already highly standardised and working well, such as SEPA payments.

Blockchain raises a number of issues

Although blockchain won most of the votes during the debate, one dissonant voice was heard: Michael Salmony, from Equens. He acknowledged that blockchain is a fascinating technology and that any responsible organisation should look at it, but insisted that we must be careful with the hype around it. “Blockchain is currently a solution looking for a problem. Payments are also much more than just a ‘ledger’, thus the hope of sweeping away the whole payment system with a cryptographic algorithm does seem a bit optimistic. It should also be noted that distributed, safe, scalable, trusted solutions to ledgers (aka distributed databases) have been around for a long while. Blockchain still has to prove these attributes before a critical infrastructure like payments should be built on it. Most importantly, we should not start from a technology: we should look at the customers, see what problem they have, and then identify which technology could solve it. ”

Most speakers, however, agreed that if blockchain is not yet a game changer, it definitely has the potential to become one. A number of questions must first be answered to allow it to fully reap its benefits.

1) Can blockchain handle our current transactions volume?

Blockchain is, for the moment, a small scale network. Its scalability to cope with, for example, the 35 billion transactions occurring in SEPA every year is not yet proven.

2) What about the hidden costs of blockchain?

Carlos Conesa, from Banco de España, warned against the hidden costs of bitcoin's blockchain: "Though blockchain is a very innovative solution, some of its supposed advantages, such as disintermediation, cost reduction, and the fact that trust is no longer needed, are, at best, inexact." For instance, the transactions' verification is very energy-intensive: the energy consumption of the current bitcoin's blockchain is higher than Google's. On top of that, new intermediaries - requiring trust - appear as blockchain is developed, and converting bitcoins into sovereign currency can be very costly.

3) How private can, and should, the data be?

PSPs are highly bound to Know Your Customers (KYC) requirements. Some blockchain enthusiasts believe that blockchain could be a way to pool the KYC fulfilments among all PSPs: one PSP could fulfil the KYC requirements for a given customer, and trace them in the distributed ledger. Other PSPs wouldn't, therefore, have to fulfil them as well. Whether compliance with KYC requirements would be easier with blockchain is however an open question. "How will we manage privacy and ensure transparency at the same time?" asked Marc Buitenhek from ING.

4) Is blockchain really safe?

Many security issues have appeared at the fringes of the system, for instance, in the wallets and exchanges. In addition, blockchain is still used today on anonymous markets that represent a threat to public safety.

5) How can we create standardisation?

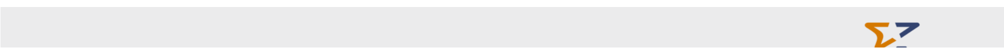
Without cooperation among PSPs, there cannot be interoperable blockchains, and they cannot be used on a large scale. PSPs must therefore collaborate to progress on blockchain, in a manner that still needs to be defined.

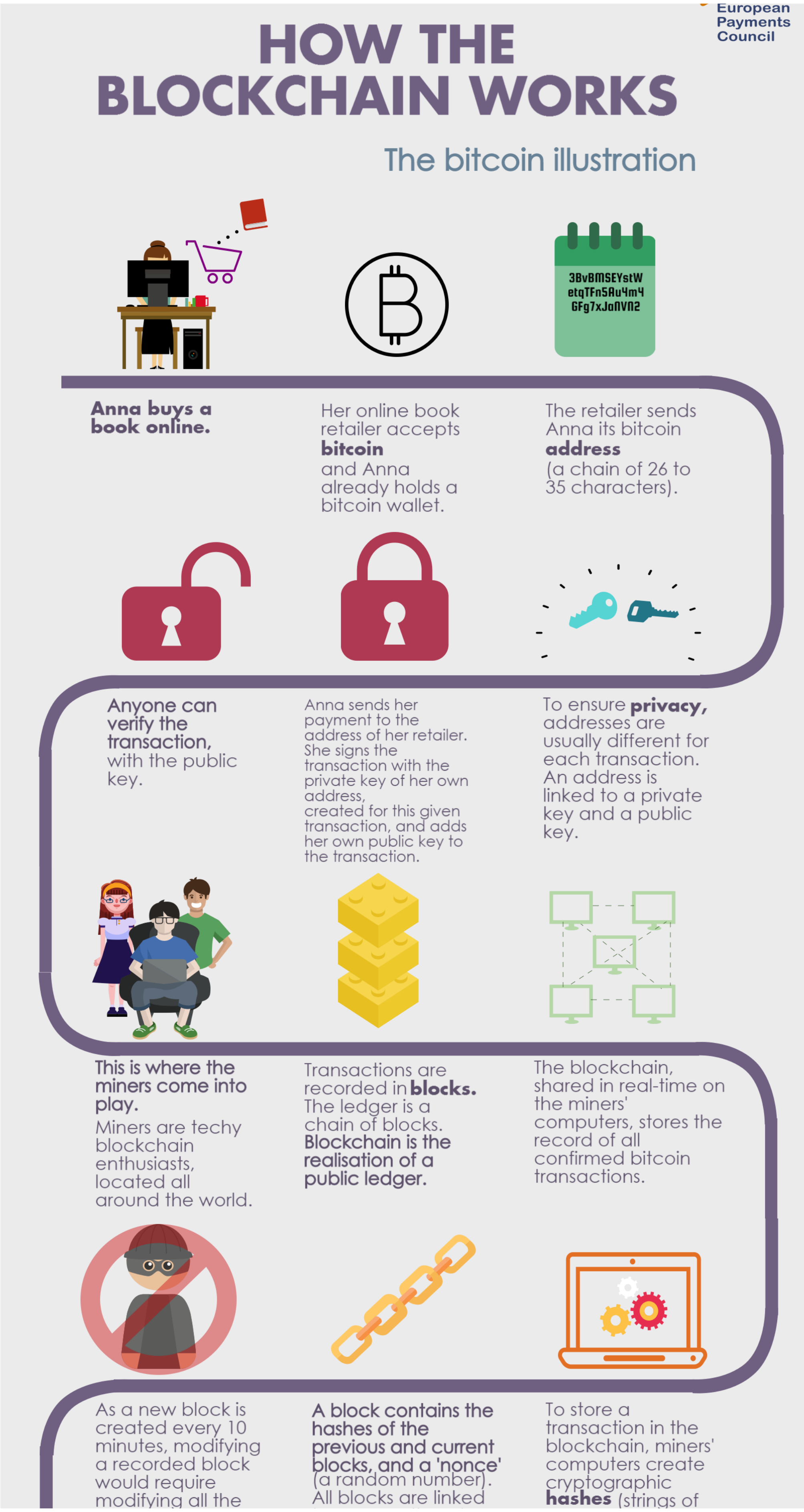
6) What should the role of the regulators be?

To make blockchain a success for payments on a large scale, regulators should have their say in the status of blockchain transactions and the standards that they should use, such as ISO 20022. ING and other Dutch banks have, therefore, involved the Dutch National Bank in the research they are currently undertaking on the potential of blockchain. The Bank of England is also one of the most open-minded central banks on the topic, and acknowledged that the "distributed ledger technology represents a fundamental change in how payment systems could work". Carlos Conesa recalled that "At first, many regulators showed disbelief, suspicion and neglect towards blockchain, sharing their concerns about security and anonymity, the lack of supervision and oversight, and even its potential impact on financial stability. An increasing number of central banks are now past this phase, and are analysing the potential of blockchain, having disassociated it from cryptocurrency". Other speakers pointed out that blockchain could indeed offer central banks the possibility of monitoring money flows in real time, controlling the transactions more accurately, and acting in real time.

All opinions considered, isn't the fact that banks are led to call their own practices into question the main asset of the blockchain hype? Stefan Dab from the BCG, who was moderating the debate, summed up an opinion shared by several speakers: "Blockchain is a game changer to the extent that it compels the banking industry to think differently and to consider major changes to improve its processes and services, even if in the end, blockchain proves not to be the new technology used." Though the general sentiment on blockchain is positive - all speakers agreed that it cannot be ignored and is here to stay, even beyond the payment application - it is not necessarily considered to be the panacea in the long run. PSPs still need to take a closer look at it, in order to determine if it can be a real game changer. The banking industry should start with the customers' needs, and then see how a technology, whether it is blockchain or another one that might supplant it, could then serve these needs.

Check out the EPC's infographic to learn more about how the blockchain works:

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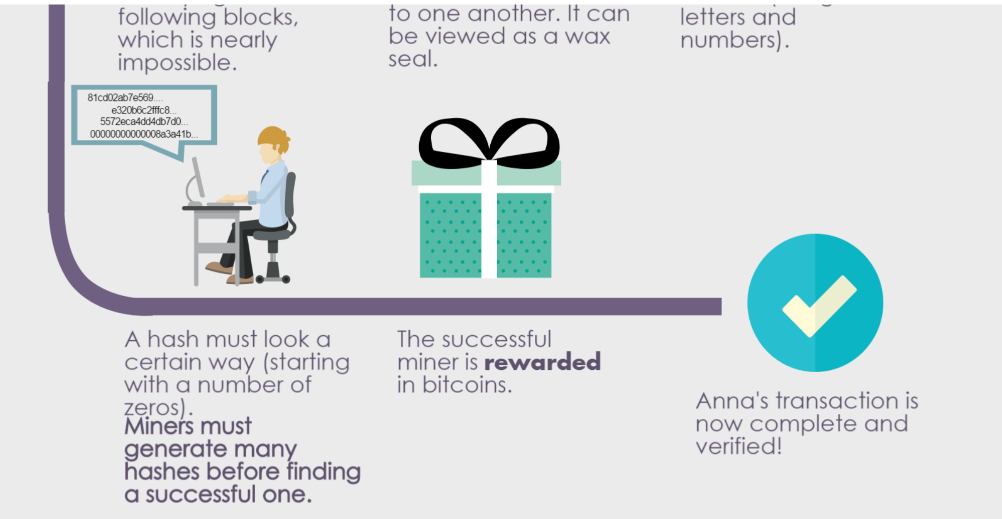
HOW THE BLOCKCHAIN WORKS
The bitcoin illustration
3BvBMSEYstW etqTFn5Au4m4 GFg7xJaNVN2
Anna buys a book online.
Her online book retailer accepts bitcoin and Anna already holds a bitcoin wallet.
The retailer sends Anna its bitcoin address (a chain of 26 to 35 characters).
Anyone can verify the transaction, with the public key.
Anna sends her payment to the address of her retailer. She signs the transaction with the private key of her own address, created for this given transaction, and adds her own public key to the transaction.
To ensure privacy, addresses are usually different for each transaction. An address is linked to a private key and a public key.
This is where the miners come into play. Miners are techy blockchain enthusiasts, located all around the world.
Transactions are recorded in blocks. The ledger is a chain of blocks. Blockchain is the realisation of a public ledger.
The blockchain, shared in real-time on the miners' computers, stores the record of all confirmed bitcoin transactions.
As a new block is created every 10 minutes, modifying a recorded block would require modifying all the
A block contains the hashes of the previous and current blocks, and a 'nonce' (a random number). All blocks are linked
To store a transaction in the blockchain, miners' computers create cryptographic hashes (strings of



Related articles from the EPC newsletter:

How to Use Blockchain Technology to Develop Faster and Cheaper Inter-banking Infrastructures (EPC newsletter, April 2015)

Ripple: an Internet Protocol for Inter-bank Payments (EPC newsletter, April 2015)

EPC NEWS

New developments on the SCT Inst payment scheme: the date of the public consultation, as well as the proposed initial maximum duration and amount of an SCT Inst transaction, are revealed!

The European Payments Council (EPC) task forces involved in the development of the SEPA Credit Transfer Instant (SCT Inst) payment scheme have certainly not been idle over the past few months. A draft version of the rulebook (i.e. the business and technical rules governing a scheme) is almost ready and will be subject to a public consultation from 12 April to 10 July 2016.

Among the issues that have been progressed since the publication of the EPC proposal for the design of an SCT Inst payment scheme in November 2015, and its approval by the Euro Retail Payments Board, is the target for the maximum number of seconds an SCT Inst transaction should last. Subject to the feedback to be received during the public consultation, the EPC proposes to set it at 10 seconds. The EPC further proposes to establish the initial maximum amount of an SCT Inst transaction at 15,000 euros. These two parameters will be periodically reassessed, following a transparent change process, after the SCT Inst payment scheme is implemented.

More information on this pan-European euro instant credit transfer scheme is available on the EPC website. The details of the public consultation are to come soon.

European Payments Council

POLICY, REGULATORY, AND LEGAL ISSUES

The EPC responds to the European Commission´s green paper on retail financial services

In December 2015, as part of its strategy to boost competition, transparency and choice in retail financial services, the European Commission launched a public consultation. The Commission's main goal is to make it easier for companies wanting to offer retail financial products in other EU Member States. This, in turn, will give consumers access to a far greater range of services. More details on the consultation and its objectives can be found in the European Commission's press release.

In the hope that it would spark debate, all interested parties, throughout the EU, were invited to respond to the consultation by 18 March 2016. The European Payments Council (EPC) has welcomed the opportunity to participate.

The EPC's general comments:

- The EPC supports the European Commission's overall objective of "creating a true European market for retail financial services". However, the green paper does not appear to recognise the achievements of the payments industry to date in harmonising payments in Europe (development of and migration to SEPA schemes, card standardisation).
- The EPC would be interested to know how the European Commission defines and measures the quality of products when calling for "better products". The EPC's view is that such an assessment should be left to the market and in particular to end-users and free competition.
- The EPC would also be interested to see the analysis and understand the reasons behind the statement that air travel is an example of "a well-developed Single Market". For example, in Section 2.1, the question arises about whether the concentration of service providers is actually not lower in the retail financial sector in comparison with the air travel sector taken as an example of a "well-developed Single Market".
- The EPC has concerns about the reference to the "portability of bank account numbers" mentioned in Section 2.1. The EPC is unaware of the existence of any feasibility, impact or cost and benefit analysis supporting such an option.

Overall, the paper seems to rely largely on anecdotal evidence. The EPC expects this to be complemented with analysis and rigorous quantitative research as the basis for public policy or any legislative initiative.

The EPC has also provided responses to some of the specific questions posed in the European Commission's paper.

The EPC looks forward to the European Commission's conclusions based on the responses to the consultation and on the outcome of the 2 March 2016 public hearing on the green paper.

INNOVATION

Realising the value of Same Day ACH

Same Day ACH is a key part of the faster payments movement in the U.S.

BY SCOTT LANG, SENIOR VICE PRESIDENT, ASSOCIATION SERVICES FOR NACHA

As one of the most significant changes for the ACH Network in its 40-plus-year history, Same Day ACH is a key part of the faster payments movement in the U.S. In this article, Scott Lang, from NACHA—The Electronic Payments Association® in the U.S., discusses the new Same Day ACH Rule and how it provides a ubiquitous same-day clearing and settlement capability for virtually all ACH payments.

The views expressed in this article are solely those of the author and should not be attributed to the European Payments Council.

Each year the Automated Clearing* House (ACH) Network — the payment network that universally connects all 12,000 financial institutions in the U.S. — transmits billions of transactions, mostly overnight from one financial institution to another. Yet in today's environment, everyone wants everything faster—and that includes payments.

This is why NACHA—The Electronic Payments Association®, together with the U.S. financial industry, is moving payments faster with Same Day ACH. The new Same Day ACH Rule provides a ubiquitous same-day clearing and settlement capability for virtually all ACH payments. NACHA and the ACH community in the U.S. have long recognised the need for enabling businesses, government agencies and consumers to make payments and get paid faster via ACH. Armed with comprehensive research, and extensive and inclusive industry dialogue and feedback, we were able to facilitate a capability that takes advantage of the ACH Network's ubiquitous reach, efficiencies and proven reliability.

With Same Day ACH, two new settlement windows will be added to the ACH Network, increasing the movement of funds between financial institutions from once each day to three times daily. Because it is mandatory that all receiving financial institutions on the Network receive same-day transactions and provide faster funds availability to customers, those originating Same Day ACH transactions will have the certainty that they disburse funds to, or collect payments from, all bank accounts. Customers at both ends of the transaction, whether they are consumers, businesses or government agencies, will benefit from the capability of making payments or being paid on the same day.

Phased implementation

To help ease the industry's implementation efforts, Same Day ACH will be implemented in three phases. As of 23 September 2016, Phase 1 of implementation will expand the traditional functionality of the ACH Network by supporting ACH credits moving more rapidly with three official settlement windows every 24 hours. In Phase 2, which becomes effective on 15 September 2017, both credit and debit transactions will be supported. In Phase 3, by 16 March 2018, all receiving financial institutions will be required to make available funds from Same Day ACH credits no later than 5 p.m. the receiving institution's local time.

Spreading the implementation across three phases allows participants to acclimate to a faster processing environment with Same Day ACH credits prior to introducing Same Day ACH debits, which bring differentiated business and risk aspects. Nonetheless, the ubiquitous nature of Same Day ACH mandates that every receiving bank and credit union in the U.S. support receipt of payments in the three ACH settlement cycles.

Innovation and new opportunities

The advent of Same Day ACH opens the door for new business opportunities and customer solutions for financial institutions. In a 24/7, Internet-based environment, customers — both corporate and consumer — demand faster payments, and financial institutions are looking for innovative ways to meet those expectations.

Research identified a total of 63 potential use cases for Same Day ACH — with 10 primary ones. For example, users may want to leverage Same Day ACH to take advantage of new, cost-effective options like urgent claims payments and refunds for the quick payout of items such as disaster assistance payments; person-to-person payments for quicker delivery of funds for transfers among family members and friends; urgent bill payments; and account-to-account payments for the movement of funds between accounts at different financial institutions.

Managing risk better

While Same Day ACH offers new options and capabilities for financial institutions and their customers, it also provides opportunities for those looking to better manage credit risk or credit limits of their customers. Same Day ACH reduces outstanding credit between parties and exposure to losses by settling transactions more frequently during the day. Another area of value for all financial institutions is the handling of exception items. Even if an original forward item was sent as a next-day ACH item, the receiving institution can return it on a same-day basis. From a risk and customer service perspective, this is particularly attractive for ACH debits.

A $25,000 limit per individual payment for Same Day ACH transactions will also help to mitigate risk and loss. Faster velocity of payments means increased transaction scrutiny and monitoring, and a dollar limit helps to decrease the potential for loss. In addition, the dollar limit will help minimise the impact on daily business operations to simplify changes to end-of-day balance processes. Currently, more than 99 percent of ACH transactions are under $25,000, so the overall impact of the same-day limit is expected to be modest.

Additionally, although not all ACH payments will be same day, there is still a need for next day ACH. For example, recurring transactions such as direct debits originated for monthly bill payments and the majority of uses of Direct Deposit for payroll work well today with existing capability. In addition, international ACH transactions (IAT) are specifically excluded from Same Day ACH to help minimise operational impacts given that the receipt of an IAT triggers compliance requirements with the U.S. Office of Foreign Assets Control (OFAC). Receiving IAT items late in the day could impose a significant burden on many financial institutions to complete the OFAC screening in a timely manner, so they remain next-day ACH payments only.

Building block for the future

As an immediate solution to meet the demands of today, Same Day ACH will also serve as a building block to meet some of the demands of tomorrow, including real-time payments. Yet Same Day ACH is separate and distinct from real-time payments, which are being embraced across Europe. For example, Same Day ACH supports both credit and debit payments, while real-time payments entail only credit payments. Real-time requires immediate notification to the receiver, whereas Same Day ACH does not. Real-time has payments finality, whereas reversals and returns are allowed for Same Day ACH, as they exist for next-day ACH today. And finally, Same Day ACH provides for same-day funds availability to the receiver, distinctive from immediate availability with real-time payments.

Although Same Day ACH and real-time payments constitute distinct approaches to faster payments, they are indeed complementary. Any move to speed up payments must start with more frequent settlements. Same Day ACH enables more frequent settlement with the addition of two settlement windows to the ACH Network, serving as a foundation on which to build faster payments capabilities, as well as other financial products and services. Collectively, Same Day ACH and real-time payments will enable financial institutions of any type or size to support a range of current, emerging and future payment needs.

These are exciting times for the payments system, financial institutions and their customers. NACHA and the U.S. payments industry are committed to ensuring that the ACH Network continues to evolve, and, as one of the most significant changes for the Network in its 40-plus-year history, Same Day ACH is a key part of the faster payments movement in the U.S.

To put it simply, Same Day ACH is a game changer for all ACH Network users, providing them with value, opportunities and choice.

*According to the European Central Bank, clearing is the process of transmitting, reconciling and, in some cases, confirming transfer orders prior to settlement, potentially including the netting of orders and the establishment of final positions for settlement.

Scott Lang, Accredited ACH Professional (AAP), is senior vice president, Association Services for NACHA, which serves as trustee of the ACH Network, managing the development, administration and rules for the payment network that universally connects all 12,000 U.S. financial institutions.

Related link:

NACHA maintains a Same Day ACH resource center at https://www.nacha.org/ with various tools and assets that can be downloaded and used by all. The resource center is updated regularly.

EPC NEWS

The Crown Dependencies will be part of the SEPA schemes geographical scope as of 1 May 2016

The European Payments Council (EPC) welcomes the islands of Jersey, Guernsey, and the Isle of Man (known as the 'British Crown Dependencies') into the geographical scope of the Single Euro Payments Area (SEPA) schemes.

Their inclusion among the SEPA scheme countries and territories was announced in February and will take effect on 1 May 2016. Payment service providers of these territories, as well as existing scheme participants and other technical players, therefore benefit from a three-month period to adapt their systems and be ready to send or receive SEPA direct debits and credits transfers as of 1 May 2016.

Click here to read the list of countries and territories using the SEPA schemes.

POLICY, REGULATORY, AND LEGAL ISSUES

Kick-off of the ERPB working group on e-invoicing solutions related to retail payments

In June 2015, the Euro Retail Payments Board (ERPB) endorsed the objective of harmonising electronic invoicing (or e-invoicing) and billing payment services with pan-European reach for consumers and businesses in the Single Euro Payments Area (SEPA).

In November 2015, the ERPB agreed to set up a working group to address this topic.

Although the uptake of e-invoicing payment services in the EU is currently at a relatively low level, it is expected to become more relevant in the coming years. The work of this group is therefore of particular importance.

The activity of the working group will start in March 2016 and is focused on achieving the following objectives:

- The preparation of a report for the ERPB meeting in November 2016 which examines the barriers to uptake and integration of e-invoicing solutions in Europe and potential ways to overcome them, as well as analysing the reasons why previous attempts have failed.

- As part of this report, a review of the landscape of e-invoicing solutions and the gathering and analysis of information from market participants on both the supply and demand sides.

The European Payments Council (EPC) is one of the two co-chairs of the working group, alongside the European Association of Corporate Treasurers (EACT) / Business Europe. The EPC looks forward to contributing to the production of a thorough report for submission to the ERPB.

In order to ensure the effective and timely delivery of everything that has been agreed by the ERPB to date and given other priorities (e.g. implementation of new regulatory requirements) and limited available resources within all stakeholder groups (including the EPC and its members), the EPC is of the view that the ERPB should not add any new items to its work plan at the moment.

INNOVATION

A step towards interoperable Person-to-Person mobile payment solutions in Europe

Three questions to Dariusz Mazurkiewicz, EPC facilitator of the stakeholders workshop on P2P mobile payments

Splitting a bill with friends at a restaurant, paying back half of a household bill to your partner, urgently sending money to your child studying in another European country… These are just some of the examples of the convenient uses of Person-to-Person (P2P) mobile payments. P2P mobile payments, which are transactions on a mobile device between two individuals, are a topic of growing interest in the financial and telecoms industries. Whilst more than fifty solutions currently co-exist in the Single Euro Payments Area (SEPA), there is no pan-European interoperability between these solutions. To contribute to the cooperation of existing and future P2P mobile payment solutions,the Euro Retail Payments Board (ERPB) invited the European Payments Council (EPC) to facilitate the dialogue among them. To that end, the EPC organised a stakeholders workshop on P2P mobile payments, which took place in January 2016. So what are the lessons learnt from this workshop, and what are the next steps? Dariusz Mazurkiewicz, Vice-President at Polski Standard Platnoci (Polish Payments Standard*) and EPC facilitator of the workshop, shares with us his main takeaways.

1) Dariusz, how did the workshop go? What was its main focus?

It was great to see that the workshop attracted around 80 participants from all parts of Europe and from a wide variety of backgrounds and job roles, including banking and non-banking payment service providers, telecoms operators, P2P mobile payment solution providers, software developers, and consultants. The EPC's objective was to organise an open and transparent workshop in which all stakeholders who could demonstrate a relevant interest in P2P mobile payments could participate.

The diversity of backgrounds of the participants was one of the greatest assets of the workshop, yet it also turned out to be a challenge. We needed to ensure that we all had a basic common understanding of the objectives we wanted to pursue.

We built the workshop around the recommendations of the ERPB Working Group on P2P mobile payments. Among other topics, we discussed:

- the development of a set of rules and standards (framework) related to joining and using pan-European mobile payment services;

- the set-up of a governance structure, most notably responsible for defining, publishing and maintaining the framework;

- the implementation of a standardised proxy lookup (SPL) service which allows P2P mobile payment data (proxy and IBAN) to be exchanged among P2P mobile payment solutions on a pan-European level.

2) Did the workshop yield any specific results? What is the next step?

I am happy to say that the participants of the workshop agreed on the establishment of a steering committee. It will be the first step towards the creation of a Forum, which will focus on pan-European interoperability in the field of P2P mobile payments, and in particular on the set-up of a pan-European SPL service. This steering committee will also need to make various governance related decisions with regard to this Forum. For example, should the Forum be informal or formal? What will the eligibility criteria to join it be? Who will fund the Forum? etc. These are some of the questions the steering committee will work on, as well as some open issues identified during the workshop. The steering committee is likely to meet for the first time this spring, and will provide a first status report at the ERPB meeting in June 2016.

3) More generally, what would the pan-European interoperability of P2P mobile payment solutions bring to the European consumer? Why is it important for Europe to achieve this interoperability?

The harmonisation of all types of payment within SEPA ensures a consistent user experience, anywhere in the area. Achieving pan-European interoperability of P2P mobile payment solutions will ensure that any person (payer) in Europe will be able to make a payment in euro with a mobile device, in a secure and simple way, to any other person (payee) in Europe regardless of the service(s) the payer or payee is registered to. Moreover, following the implementation of the SEPA Credit Transfer Instant payments scheme, these types of payments could soon also be executed instantly on a pan-European level. Interoperability of P2P mobile payment solutions would furthermore contribute to the harmonisation of mobile payments, which is one of the regulators' areas of focus, in order to support the broader objective of making the euro a single and fully operational currency, in any of our day-to-day payment situations.

* Polski Standard Platnoci is a company formed by the six biggest Polish banks: Alior Bank, Bank Millennium, Bank Zachodni WBK, mBank, ING Bank and PKO Bank Polski, providing their customers with an intuitive mobile payments service - BLIK. BLIK enables customers to make eCommerce and retail payments, withdraw cash from ATMs and make interbank P2P instant transfers to other customers using mobile banking apps. The company runs a Polish mobile payments scheme open to all banking applications of participating banks.

EPC NEWS

The season of the EPC scheme rulebook consultations will start in April!

All stakeholders will soon have the opportunity to have their say in the evolution of the three existing European Payments Council (EPC) SEPA scheme rulebooks (i.e. the technical and business rules governing the schemes). From 5 April to 4 July 2016, the SEPA Credit Transfer (SCT) scheme, the SEPA Direct Debit Core (SDD Core) scheme, as well as the SDD Business-to-Business (SDD B2B) scheme will be subject to a public consultation. To ensure that the SEPA schemes reflect the evolution of Payment Service Providers' needs and those of their customers, as well as technological changes, the EPC regularly organises a release management cycle for the scheme rulebooks, in line with its commitment to transparency and stakeholders’ involvement.

Following a call for suggestions to amend the rulebooks, conducted in the fourth quarter of 2015, the EPC has registered nearly 40 change suggestions from various banking and stakeholder communities, as well as suggestions from the EPC itself. All have been included in the public consultations. For instance, an important change suggestion, which was recommended by the Euro Retail Payments Board, is to make mandatory EPC Customer-to-Bank Implementation Guidelines. Another noteworthy proposition (regarding the SDD B2B scheme only) is to extend the direct debit collection return period from two to three interbank business days.

After a review of the responses to the consultation, the EPC will, in November 2016, publish the updated rulebooks and implementation guidelines that will enter into force one year later. This will ensure enough time is left for scheme participants to implement the necessary changes in their systems.

Throughout April the EPC will keep all stakeholders wishing to find out more details about the public consultation up to date.

ON THE CARDS

Cards Volume: be prepared for the next consultation

For the European Payments Council (EPC) and the Cards Stakeholders Group (CSG - a multi-stakeholder body which the EPC is part of, together with retailers, vendors, processors and card schemes), the publication of one release of the Single Euro Payments Area (SEPA) Cards Standardisation Volume (the Volume) denotes the start of work for the next full release.

The Volume is a key set of documents for the card industry, aimed at achieving a better and functionally richer card services environment, as well as cards standardisation, interoperability, and security in Europe.

To ensure it is aligned with the evolution of cards technology and regulation, the Volume is regularly updated by the EPC and the CSG. This process of refreshing the Volume commences with gathering input from the industry, this is then followed by a public consultation. All comments are reviewed and, if deemed relevant, included in the new release. It takes effect three years following its publication in order to give those affected players within the card industry time to implement the changes.

The latest version (version 7.1, published in December 2015) included, for the first time, among other things, functional and security requirements applicable to card-not-present (also referred to as ‘remote’) payments. In addition, a Bulletin was issued late February to cover without delay certain aspects of the Interchange Fee Regulation relating to product identification.

The next full version of the Volume, 8.0, which will be referred to as 7.5 during the consultation from May to August 2016, will be fully aligned with the revised Payment Services Directive (PSD2). Among other things, it will also include certain aspects of the Interchange Fee Regulation which were not part of the former version or the recent Bulletin. For instance, the Volume will present further details on the selection of the application for contactless cards. It will also contain modifications to the security requirements for points of interaction, to allow further alignment to, amongst others, the Data Security Standards of PCI (Payment Card Industry).

Volume version 8.0 is targeted to be published in December 2016.

POLICY, REGULATORY, AND LEGAL ISSUES

What you should know about the EPC´s response to the EBA´s

What you should know about the EPC's response to the EBA's discussion paper

EBA seeks preliminary input to Regulatory Technical Standards in support of PSD2

BY RUTH WANDHÖFER, CHAIR OF THE EPC PAYMENTS SECURITY SUPPORT GROUP

With the publication of the revised Payment Services Directive (PSD2) in December 2015, a new role was assigned to the European Banking Authority (EBA) in the regulation of this area. The EBA received the mandate to develop five sets of Regulatory Technical Standards (RTS), five sets of Guidelines, and one set of Implementing Technical Standards. One particular RTS, on strong customer authentication and secure communication, is key to achieving one of the PSD2's objectives of enhancing consumer protection, promoting innovation and improving the security of payment services across the European Union. The EBA will be developing this mandate in close cooperation with the European Central Bank (ECB). Prior to the publication of the consultation paper with the draft RTS, which is foreseen for the end of the second quarter of 2016, the EBA has issued a discussion paper, so as to benefit from input by market participants on a number of issues that are key to the development of the RTS. The discussion paper, for which input from the payment community was required in February 2016, invited views on issues related to strong customer authentication; the exemptions to the application of strong customer authentication; the protection of the personalised security credentials of the payment service users (PSUs); the requirements for common and secure open standards of communication; and possible synergies with the Regulation on Electronic Identification and Trust Services for electronic transactions in the internal market (e-IDAS Regulation). The European Payments Council (EPC) responded to the discussion paper and welcomed this opportunity to provide its feedback, which is summarised below.

The EPC formulated a number of general considerations

The EPC is of the opinion that in order to allow evolving market solutions and innovation, RTS should be robust and technology-neutral. This means that they should be, as much as possible, principle-based, and should not define specific technical standards or include exhaustive lists of examples. They should establish clear criteria which allow the adoption of new standards that could potentially be developed in the future. In addition, the RTS must be open for all business, technical, legal and operational models and must facilitate the creation of an environment that is fair with clear delineation of risk and liability. Moreover, the principles for strong customer authentication and the interoperability specifications for communications should be based on internationally recognised and open standards, instead of only devising a European approach.

Given the multiple scenarios in PSD2 where PSUs may grant authorisation to third parties in order to access their information, or to act on their behalf, it is fundamental that the RTS developed by the EBA do not impose restrictions on the ability of European Payment Service Providers (PSPs) to develop homogeneous services at a global level.

The EPC's suggestions concerning strong customer authentication

The PSD2 defines strong customer authentication as "an authentication based on the use of two or more elements categorised as knowledge (something only the user knows), possession (something only the user possesses) and inherence (something the user is) that are independent, in that the breach of one does not compromise the reliability of the others, and is designed in such a way as to protect the confidentiality of the authentication data." This definition has resulted, during recent months, in lengthy debates on the precise criteria for independence of the two authentication factors, especially when certain customer devices such as mobile phones are used. However, the EPC affirms that the actual challenge, with respect to strong customer authentication, is the sole control and possession by the PSU of the authentication factors, rather than the independence of these factors. Moreover, the focus should instead be on a risk-based authentication model whereby additional information, such as customer related behaviour-based characteristics, could serve as additional input. The use of complementary authentication methods, in circumstances where detected risk patterns rise above predefined critical thresholds, is the preferred manner to limit risk and ensure optimal transaction security levels at all times.

Furthermore, it is also important to note that as long as strong customer authentication is not imposed globally, there will not be a significant reduction in international fraud, especially in relation to card-based transactions. Attackers will continue to harvest card data, independently of the sophistication of the strong authentication, and make use of it with non-European merchants.

The EPC maintains that PSUs should not share their personalised security credentials with third party providers

According to the PSD2, certain credentials can be made accessible to Third Party Providers (TPPs*). However, it is understood that the PSD2 aims to give PSUs control over the information that is shared this way. When using an application programming interface (API) approach, the RTS should take into account that there are technological solutions through which credentials are only used between the account servicing PSP and the PSU, and yet the TPP gets the functionality and information they need. To achieve the aims set out by the European Commission, the EPC continues to believe that it is not necessary for PSUs to share their personalised security credentials with a TPP.

In contrast, the authentication codes which could potentially be exposed to a TPP should be bound to a specific payee and specific amount, so that the exposure constitutes no risk for the PSU, irrespective of whether these authentication codes are exposed to the right or the wrong intermediary.

The EPC's view on secure communications between PSPs

With respect to the interface and communications between the account servicing PSPs and TPPs, internationally established corporate banking interfaces could be leveraged, towards a standardised uploading and downloading of single transaction or account data by TPPs. As most of them require the client side to work with Public Key Infrastructure (PKI) certificates, this could match the normal server-based access from TPP environments.

The EPC recommends that the following topics be addressed in the RTS:

- Specification of generic request, response and authentication messages, irrespective of the underlying communication protocol;
- Specification of at least one appropriate communication protocol, to be supported by all registered participants;
- Specification of a certification authority that supports easy and up-to-date authentication of authorised PSPs (e.g. through the issuing of attribute certificates);
- Governance (management of liabilities and claims).

The EPC encourages synergy with e-IDAS Regulation

Indeed, the e-IDAS Regulation specifies principles and requirements regarding identity and authentication levels. According to the EPC, it represents an opportunity for European customers to benefit from harmonised principles of identification and authentication across Europe. However, the e-IDAS Regulation has been developed to secure an authentication of an identity, and not the authenticity and integrity of a payment transaction. e-IDAS deals with the levels of assurance of personalised security credentials for sole control. The levels of assurance for personalised security credentials will also have to be specified for customers and PSPs in the context of PSD2. The EPC strongly encourages alignment with the assurance levels defined by e-IDAS for simplicity, intelligibility and reusability reasons. The dialogue and close collaboration on these matters between the EU institutions and the public and private sectors will be crucial in order to devise secure and effective solutions into that context and, more broadly, as part of the Digital Single Market, especially in circumstances where both the e-IDAS Regulation and the PSD2 would apply.

*This term refers to the Payment Initiation Service Providers and Account Information Service Providers as defined in the PSD2, Art 4.

Ruth Wandhöfer is the Chair of the EPC Payments Security Support Group and Global Head Regulatory & Market Strategy Citi Treasury and Trade Solutions of the Citi Group.

Related links:

[EBA's discussion paper on strong customer authentication and secure communication under PSD2]

[Directive on Payment Services (PSD)]

[Regulation (EU) No 910/2014 of 23 July 2014 on electronic identification and trust services for electronic transactions in the internal market]

Related articles from the EPC website and newsletter:

[EPC Blog - PSD2: Almost final – a state of play]

COUNTRY PROFILE

The French payment landscape in a few key figures

In this new section, we take a closer look at the payment landscape of various countries, and see how they compare to the European Union's payment landscape as a whole. France is the first to be featured, with an infographic highlighting some of its key payment figures.

In addition, Narinda You, EPC Vice-Chair and Secretary General and Head of Interbank Relations at Crédit Agricole – Global Transaction Services, sheds some light on the latest French payment news and trends by answering to the following questions:

- **The French Finance Ministry recently adopted a national payment strategy. Could you briefly explain what it is?**

The French national payment strategy, adopted in October 2015, is designed to fasten the development of innovative means of payment, and to boost the competitiveness of the payment industry. It strives to better meet users' needs, particularly in terms of card acceptance for low value payments through the development of contactless payments and other cutting edge methods of payment (i.e. mobile payments or those made through connected devices).

The objective is also to reduce the number of cheques being used and enhance SEPA credit transfers by making them faster and easier to initiate.

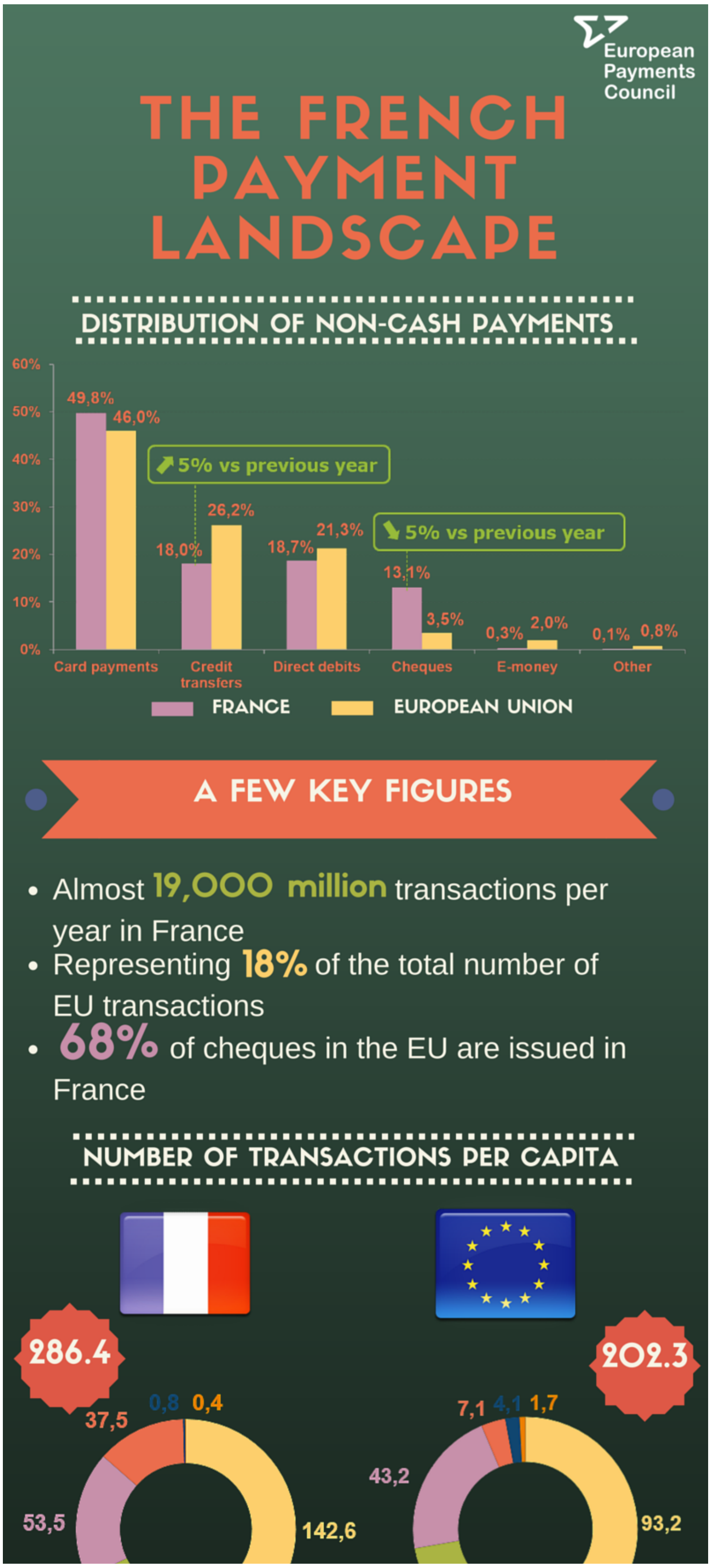
- **In term of payments, France is known for its use of cheques (the average number of yearly cheque transactions per person is more than 37, against an average of 7 across the EU). How do you think this French tradition will evolve in the future?**

Indeed, cheques represent 13 percent of the total volume of non-cash payments in France, and 68 percent of the total volume of cheques issued in Europe are French. However, they have continually decreased in recent years. This reduction should be accelerated by the development of Person-to-Person payment solutions that are currently being tested on the market, and the promotion of credit transfers.

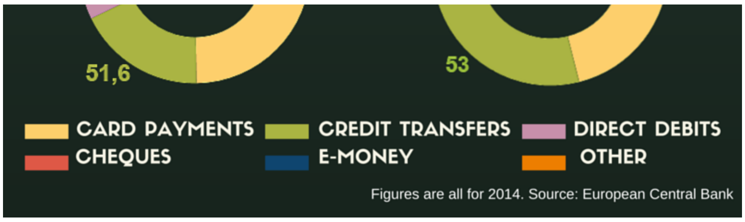
• **Are cards the preferred method of payments in France, as it is in the rest of the European Union?**

In France, cards are used both for face to face and internet payments. They hit 9.5 billion transactions in 2014, and increase by more than 5 percent every year. The development of contactless low value payments is also likely to boost these volumes.

Check out the EPC's infographic on the French payment landscape:



European Payments Council



Figures are all for 2014. Source: European Central Bank

AROUND THE WEB

If you missed them: a selection of interesting reports about payments

If you find it difficult to keep up to date on everything that is being published online about payments, then this section could help you by providing links to a selection of interesting and relevant reports. To stay tuned to the latest payments news, don't forget to follow the European Payments Council on Twitter (@EPC_SEPA) and LinkedIn!

The views expressed in the below reports are solely those of the authors and should therefore not be attributed to the European Payments Council.

- World Class Payments - a report by Payments UK on how consumers around the world make payments (February 2016)
- Strategies for improving the US payment system - a progress report from the US Federal Reserve (February 2016)
- Game of Phones: The Giants' Power Plays in Mobile Payments - a report by Mobey Forum (January 2016)
- The European Commission presents its Action Plan to strengthen the fight against terrorist financing (February 2016)
- Blockchain in capital markets. The prize and the journey - A white paper by Euroclear and Oliver Wyman (February 2016)
- Interim report: market review into the ownership and competitiveness of infrastructure provision – A report by the Payment Systems Regulator (February 2016)