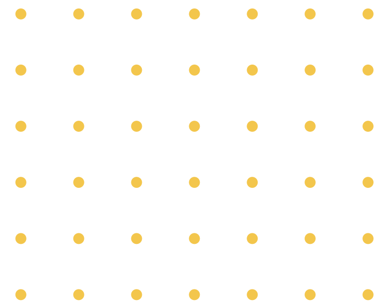

TASK FORCE REPORT

THE EU RETAIL PAYMENTS COMPASS

Let's lead the way

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March 2025

CEPS is an independent think tank based in Brussels. Its mission is to produce sound policy research leading to constructive solutions to the challenges facing Europe and the world. ECRI examines credit markets and retail finance policies. It is a separate entity managed by CEPS.

This report builds on the debates of the CEPS Task Force on 'The Future of Retail Payments in the EU'. The members of the Task Force participated in extensive discussions over the course of several meetings and submitted comments on earlier drafts of the report. The recommendations of this report do not necessarily reflect a common position reached by all members of the Task Force. Nor do they represent, in any manner, the views of their respective institutions. A list of members, meetings and speakers are in the appendices.

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ABBREVIATIONS

ASPSP	Account servicing payment service provider
API	Application programming interface
APP	Authorised push payment
DG COMP	Directorate-General for Competition
DORA	Digital Operational Resilience Act
EBA	European Banking Authority
ECB	European Central Bank
eID	Electronic identification
ERPB	Euro Retail Payments Board
EuroPA	European Payments Alliance
FIDA	Financial Data Access Regulation
FISP	Financial information service provider
GDPR	General Data Protection Regulation
IBAN	International Bank Account Number
IFR	Interchange Fee Regulation
MiCA	Market in Crypto-Assets Regulation
NFC	Near Field Communication
P2P	Peer-to-peer
PISA	Payment instruments, schemes, and arrangements
POS	Point of sale
PSD	Payment Services Directive
PSP	Payment service provider
PSR	Payment Services Regulation
RT1	Real Time 1
SCA	Strong customer authentication
SCT	SEPA Credit Transfer
SCT Inst	SEPA Instant Credit Transfer
SEPA	Single European Payments Area
SME	Small to medium-sized enterprise
SPAA	SEPA Payment Account Access
TIPS	TARGET Instant Payment Settlement

FOREWORD

What's next for European retail payments – A new industrial policy

Europe is at a defining moment. It must seize this opportunity to reaffirm its leadership in payments, strengthening its foundations of innovation, security, and resilience. With a rich ecosystem of European players, innovative solutions, and an expanding talent pool, Europe has all the ingredients to shape a payment ecosystem that serves European consumers, businesses, and institutions – by design and by purpose. This is not just a matter of progress; it is about securing Europe's sovereignty and autonomy over one of the most critical industries of the digital economy. The urgency could not be greater.

This report is a call to action. It is the reflection and set of recommendations that the moment demands, delivered at precisely the right time. Now, the responsibility lies with stakeholders to take an active role and ensure that European payments do not just endure but lead, defining the future of a truly sovereign, competitive, and resilient digital economy.

Payments are the **foundation of economic resilience, competitiveness, and innovation***, powering every aspect of our economy and society. As one of Europe's fastest-growing industries, payments drive productivity, digitalisation, financial inclusion, and social progress. Without seamless and secure payments, economies stall, businesses falter, and societies lose access to essential goods and services. For consumers, payments are a daily touchpoint, shaping trust and engagement. For businesses, especially SMEs, they are a growth engine, unlocking new opportunities and expanding markets. This concerns more than just keeping pace – it means leading the future of global payments and global digital economy.*

Europe is home to **some of the world's most advanced payment systems***. The 13 largest European mobile payment solutions already serve 135 million users and process over 9.6 billion transactions, demonstrating the strength and scale of our ecosystem. Prominent European solutions – built in Europe, for Europe – are already reaching most EU-27 countries, covering 96% of the population. These solutions have not only thrived but have also become the preferred payment method for both consumers and merchants, particularly in high-growth areas like e-commerce and mobile payments. Competing head-to-head with global players, they continue to gain market share and redefine user expectations.*

The proliferation of domestic and regional solutions – evolving into European champions – is a testament of Europe's differentiation, resilience, agility, and innovation, built on European infrastructure. With the legislative push for instant payments and the rise of

cross-border and interoperability initiatives such as EuroPA and EMPSA, Europe is eliminating the barriers that once threatened its sovereignty in payments. This is what makes Europe unique.

Payments are becoming increasingly **complex,** *dynamic, and competitive. Technology is advancing at an unprecedented pace, consumer behaviours are evolving rapidly, and new players – from global tech giants to agile fintech start-ups – are reshaping the industry, challenging traditional models, and redefining market expectations.*

The intensity of technological development in payments is unparalleled. Payments must be instant, ubiquitous, and adaptable, available anytime, anywhere, for any purpose. Innovation is no longer optional – it is existential. The payments landscape demands continuous adaptation, agility, and bold leadership. At the same time, the payments value chain is becoming a battleground. A growing number of global, cross-functional intermediaries are shaping the ecosystem, while consumers and merchants are becoming increasingly sophisticated.

The multiplication of regulatory initiatives is a challenge for all European players. The proliferation of regulatory initiatives (there are at least 15 pieces of legislation that are being adopted which impact payments), often overly prescriptive, fragmented, and inconsistently enforced across national and European levels, is undermining Europe's ability to compete in the global payments landscape. The lack of regulatory cohesion and, sometimes, alignment between public and private initiatives, creates uncertainty, making it difficult for European players to navigate the evolving payments landscape with confidence, and leading to unintended consequences that threaten Europe's long-term competitiveness.

The lack of harmonisation and alignment between rules has resulted in an unlevel playing field, where regulatory asymmetries unintentionally favour global players and non-payment actors operating in the payments space. These entities benefit from looser licensing requirements, regulatory gaps, and fragmented national supervision, further entrenching their dominance at the expense of European-based solutions.

Europe needs a new European payments industrial policy – one that provides a coherent, structured strategic vision and ensures an actionable roadmap, effective execution, and accelerated results for payments. It should leverage existing, distinctive European strengths and capabilities, with a view to engaging and aligning all stakeholders around four building blocks:

1) ***A clear, common, and strategic vision.*** *European governments, institutions, payment players, and business leaders need to get together, align and commit*

towards a common goal. Europe needs to assess the gaps, set priorities, and define concrete steps forward. Europe needs a governance structure that ensures the highest level of political and industry alignment and commitment. It must represent all actors of the value chain, including European payment solutions, ensuring a balanced, fair, and equidistant approach between global and European initiatives, as well as between public and private players.

2) ***A streamlined and harmonised regulatory framework.*** *Regulation must be an enabler, not an obstacle. Europe needs a harmonised supervisory framework across Member States, ensuring consistency and efficiency. Rather than building parallel public infrastructures, Europe must create complementary public-private partnerships and align a coordinated funding and investment strategy with regulatory support. Future-proof regulation should anticipate and adapt to technological and market evolution, not merely react to it. There needs to be a turning point towards a clear cost-benefit approach. A more strategic and harmonised enforcement model is crucial for a fair competitive landscape where European players can innovate and scale effectively.*

3) ***Future-proof, purpose-driven objectives****. Europe's focus must be on meaningful, structural objectives and goals, not just technology shifts or isolated disruptions. Success is not about pushing any single payment method – it is about ensuring that more European transactions use European infrastructure and solutions, whether in euro, cards, accounts, instant payments, or the digital euro. Europe needs to have a common taxonomy in payments as well as aligned comprehensive and consistent key performance indicators. This is to provide complementarity and interoperability, flexibility and progress, while focusing on the overall strategic goal.*

4) ***Investment, talent, and leadership****. Europe must become a global reference in digital payments – not just keeping pace, but leading. Europe needs to attract and scale up investment, and develop and retain top-tier talent, positioning payments as a high-value, cutting-edge sector that combines state-of-the-art infrastructure with breakthrough innovation. This is about ensuring sovereignty, resilience, and autonomy in payments and for the overall European digital economy.*

Success for European payments means the European public choosing and trusting European solutions, while having the ability to pay globally. Success for European payments means companies operating across Europe accepting and relying on European payment solutions.

Europe must act decisively to correct market imbalances, align regulation with innovation, take a rigorous cost-benefit approach to intervention, enforce policies equitably across all players, and foster an ecosystem where European payment solutions and European payment players can not only survive but lead—globally and sustainably. The ***digital euro*** *presents a critical opportunity to reset the regulatory paradigm and create a more cohesive, innovation-friendly environment. A CBDC should not be a replacement but rather a complementary digital currency that leverages existing infrastructure and private payment solutions, maximising existing investments while enhancing European sovereignty. Its role should be to support private-sector innovation for a resilient, competitive, and future-proof payments ecosystem.*

Europe should ensure that at least one EU-based payment option is always available, private or public, and that options are interoperable. This approach would strengthen consumer choice, enhance market resilience, and reinforce Europe's strategic autonomy in payments. This is the only approach that can promote effective, time-to-market, sustainable impacts and continuous innovation.

My final words are a heartfelt note of gratitude and recognition to my fellow Task Force members for their insightful and meaningful contributions. During the course of our discussions, participants from over 20 institutions – spanning the entire European payments ecosystem – came together to debate perspectives based on invaluable market experience and deep knowledge.

I would also like to express my appreciation to CEPS and ECRI for undertaking this report and actively contributing an independent perspective, driving the discussion forward with a set of valuable recommendations.

Europe stands at a pivotal crossroads. What brought us here will not guarantee our success moving forward. To compete and thrive in the evolving global geopolitical and economic landscape, Europe must define a new European payments industrial policy anchored on innovation, which fosters strong European solutions and champions. The time to act is now – let's build the future of European leadership in retail payments together!

Madalena Cascais Tomé

Chair of the Task Force

CEO, SIBS Group

Introduction

The EU payments sector has changed significantly over the past decades. Payments have progressively become more digital to keep pace with consumer demand. The use of physical card payments has more recently been followed by the advent of digital wallets and national digital payment applications, allowing card and (instant) credit transfers to be made via mobile phones (see Box 1). Digital payment solutions have emerged for making payments in various ways online and at the point of interaction.

The latest payment methods offered by domestic and international providers (both recent and established) try to make the consumer's payment experience more seamless. New entrants to the market include technical service providers and third party providers, as well as national collaborations between banks. International players are also providing innovative forms of payment, some of them quite successfully.

Europe's payments landscape is dynamic and well-functioning, featuring a considerable increase in innovation and competition over the past few years. This has resulted in a more competitive and fair market, increasingly based on digital solutions that combine innovation with security. However, even though the EU has been at the forefront of payment digitalisation for decades, it has started losing ground in terms of reach and scalability, operating only in individual Member States and not at the EU level. As the payments landscape evolves, EU retail payments must be reinvigorated to meet current challenges and prepare for future ones.

This Task Force report outlines the current state of retail payments in the EU. It discusses how to further develop a competitive and fair market that benefits both the European industry and consumers. It also highlights the need for regulators and market players to collaborate in order to support continued innovation in the payments landscape that meets the expectations of consumers and merchants. Ensuring the security of payment solutions and protecting consumers from fraud is also fundamental to market resilience. The report concludes with a series of policy recommendations aimed at fostering a dynamic, competitive, resilient, fair, and secure payments market in Europe.

Box 1. Main ways of paying in the EU

Cash

Banknotes and coins in euro (or other domestic currency) constitute legal tender in all Member States. Issued by the respective central banks, cash can be used for purchases at the physical point of interaction. When paying, no password or identification is necessary to complete the payment.

Credit and debit cards

Based on the use of a physical card linked to a bank account, cards are used for payments in physical shops and online transactions. Credit and debit cards rely on international and national card schemes to facilitate the transfer of funds. A credit card can mainly be used in two ways: either by inserting the card into a payment terminal, or by using contactless, where the user is requested to tap and hold the card close to the terminal to complete the payment. For a payment to be completed, the user is required to enter a pin code (exempt from contactless payments under EUR 50).

Bank transfers

Based on SEPA, electronic credit transfers between bank accounts in the EU facilitate secure transfers. The speed of transfers has increased, with the goal of becoming instant for all transfers (less than 10 seconds) in the coming years. To complete the transfer of funds, users must undergo a two-factor authentication process.

Mobile payments

Mobile payments are an alternative that allows users to complete a payment using a digital application on a phone or other mobile device. They can generally be used for account-to-account transfers and payments at the point of interaction. Mobile payment apps usually rely on a user scanning a QR code or entering a phone number to complete a credit transfer. The money is transferred directly from the user's bank account to the recipient. To complete a payment or credit transfer, users must identify themselves using national digital identification.

Digital wallets

Digital wallets enable users to make account-to-account transfers and complete payments at the point of interaction using a phone or mobile device. Digital wallets facilitate payments without requiring the use of a physical card at the point of interaction. Instead, the card information is entered by the user into an app, where the payment information is then stored. The user is required to hold the phone close to the payment terminal, using Near Field Communication technology for payment. To confirm a payment or credit transfer, the user is required to provide a pin code or other identification tool stored on the mobile device.

Other

Other means of payment include crypto-assets and buy-now-pay-later. Crypto-assets do not function as legal tender. Through the use of an exchange medium, crypto-assets can be used to complete payments digitally or to transfer value from one user to another.

1 THE PAYMENTS LANDSCAPE IN THE EU

Summary

- The EU payments landscape is dynamic, well-functioning, and increasingly based on digital solutions, having featured high levels of innovation and competition over the past few years. Yet, the EU is starting to lose ground due to the limited reach and scalability of digital payments at the EU level.

- Although the changes in the EU payments landscape have primarily been driven by market dynamics and private initiatives, they have been significantly supported by public policy and legislative developments. European authorities asked the European payments industry to collaborate on the development of the Single Euro Payments Area (SEPA), an initiative which was launched in 2008. The Payment Services Directive (PSD) had to be implemented in the Member States before 1 November 2009.

- Following the success of PSD, the European Commission sought to take payment services to the next level by introducing a revised Payment Services Directive (PSD2). In 2018, the Eurosystem launched the TARGET Instant Payment Settlement (TIPS initiative). Instant payments have also been promoted by the European Commission through the new Instant Payment Regulation, which was adopted in March 2024. Today, European authorities are working on a digital euro.

- While there is heterogeneity across Member States, in the euro area cash continues to be the most frequently used means of payment by consumers at the point of sale (POS), although the trend is declining. But in terms of the value of payments, cards are the dominant method, accounting for 45% of the money transacted, while cash represents 39% of all transactions. This indicates that for large amounts, euro area consumers prefer to pay by card than to carry cash. In 2019, cash was ahead of cards in this metric.

- Still, over 60% of euro area consumers continue to deem it either very important or fairly important to have the option of paying with cash. Moreover, while POS transactions dominate in terms of volume and value, consumers increasingly favour online transactions for non-recurring operations.

- Most completed payments in the EU are between a buyer and seller located in the same country. Likewise, most European payment solutions operate on a national basis, with the EU market lacking a fully home-grown, pan-European option for digital payment. Although several initiatives have been launched to fill this gap, challenges remain.
- In the digital consumer journey, merchants prioritise conversion rates and offering their customers' preferred payment methods. However, they need to balance these priorities with the relative cost of payments. As most consumers are largely unaware of the average costs of accepting different payment methods, merchants are the main proponents of reducing them. Even if cash is the most widely accepted form of payment, merchants show a higher preference for cards.

1.1 POLICY INITIATIVES

Although transformations in the EU payments landscape have primarily been driven by market dynamics and private initiatives, they have been significantly supported by public policy and legislative developments. Back in 2002, the European banking industry created the European Payments Council. As requested by European authorities, the payments industry collaborated to develop SEPA, which was introduced in 2008. SEPA is a payment integration initiative aimed at harmonising the way non-cash euro payments are made. It involves several schemes, like SEPA Credit Transfer (SCT), SEPA Direct Debit, and the subsequent SEPA Instant Credit Transfer (SCT Inst).

SEPA facilitates credit and direct debit transfers in euro across all EU Member States by providing users with a unique international bank account number (IBAN) and by using the SEPA schemes developed by the European Payments Council. Once the system was in place, the European Commission promoted migration to SEPA and established an EU-level forum where national coordination committees could discuss best practices. Yet, as the pace of transfer did not achieve the target levels, the European Parliament suggested that the Commission impose a deadline for SEPA implementation. The result added amendments to the Cross-Border Payments Regulation, with provisions that increased the uptake of payment schemes[1]. To ensure the complete transfer to SEPA by all players in all Member States, the European Commission amended Regulation 248/2014 on

[1] European Payments Council (2025), 'SEPA timeline', Brussels.

migration to Union-wide credit transfers and direct debits, requiring a full transfer from 31 January 2014[2].

In 2008, Member States started to implement PSD[3]. It aimed to create the foundations for a single market in payments by making cross-border payments easier, more efficient, and secure. The directive arguably succeeded in increasing access to new market entrants and allowing for the development of more competition and choice for consumers.

Following the success of PSD, in 2015 the European Commission sought to take payment services to the next level by introducing a revised version, PSD2, and with it open banking. As a result, existing companies were brought under regulation, and numerous new companies benefited from a legal framework under which they could initiate payments and share certain payment account information with consumers. Nevertheless, some in the payments industry have begrudged the sunk costs from regulatorily mandated investment into systems which have not yielded relevant business cases for them.

In 2018, the TIPS initiative was launched. TIPS is a market infrastructure service that allows payment service providers (PSPs) to offer customers the possibility of transferring funds in the central bank currency within a few seconds. It was created to roll out instant payments across all members[4] of the Eurosystem by making all EU bank accounts reachable. It achieves this by ensuring compliance with SCT Inst[5], the scheme that enables pan-European reach for instant credit transfers in euro, and through the extension of T2, the real-time gross settlement system managed by the Eurosystem, which permits access to an extensive network throughout the EU. Today, EU TIPS settles payments in real time for euro transfers in the Eurosystem and Swedish kronor (since February 2024), expanding to Denmark and Norway in 2025 and 2028[6].

The Eurosystem, which comprises the European Central Bank (ECB) and national central banks of countries that have adopted the euro[7], has played a role in making it easier to send and receive cross-border payments, as described in its retail payment strategy[8].

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[2] Regulation (EU) 248/2014 (2014) on the migration to Union-wide credit transfers and direct debits, OJ L 84/1, 20.3.2014.

[3] Directive 2007/64/EC (2007) on payment services in the internal market, OJ L 319/1, 5.12.2007.

[4] All euro countries, plus Sweden, and soon Denmark and Norway.

[5] National Bank of Belgium (2025), 'Target Instant Payment Settlement (TIPS)', Brussels.

[6] ECB (2024), 'Norway joins TIPS, adding Norwegian krone to Eurosystem's instant payment service', Press Release, 29 November.

[7] ECB (2025), 'ECB, ESCB and the Eurosystem', Frankfurt.

[8] ECB (2025), 'Cross-border payments', Frankfurt.

Instant payments have also been promoted by the European Commission by means of the new Instant Payments Regulation adopted in March 2024, which obliges PSPs to offer their payment service user domestic and cross-border instant credit transfers in euro (processed in less than 10 seconds, 24 hours a day, 7 days a week, 365 days a year) if they provide them with the service of 'regular' credit transfers in euro. The regulation change requires PSPs to ensure that the price of an instant payment in euro does not exceed the price of regular payments. With the introduction of the Instant Payments Regulation, multiple challenges were tackled simultaneously. Faster payments mean that funds are released within seconds throughout the EU, thus improving business cash flow. Equally, instant payments should offer consumers a smoother experience of cross-border transactions.

In addition, European authorities are developing a digital euro. The digital euro will complement cash and coexist with commercial bank money. Once the final setup of the digital euro is known, market players will be able to look at the ways they can offer payment services using the digital euro as smoothly and simply as possible. In fact, the ECB is exploring the inclusion of an offline functionality that would use a second, funded, wallet to operate analogously to cash.

The European retail payments market is currently regulated by multiple rules. Table 1 lists the most important legislative texts that influence credit transfers in the EU.

Table 1. Payment regulations in the EU

Legislation	Year approved	Impact on payments
Electronic Money Directive	2009	The directive lays down rules for the business and supervision of electronic money (e-money) to create a single market for e-money services. It aims to facilitate new services, offer market access to companies and promote a competitive market[9].
Single European Payments Area Regulation	2012	The regulation lays down the applicable rules related to technical requirements, as well as credit and direct debit transfers in euro in the single European payments area. It sets the requirement for using an IBAN, bank identifier code (BIC) and a standard for financial messaging for all payments in euro. It also sets the rights of payers to issue specific instructions on the amount and frequency of direct debit transfers[10].
Payment Services Directive 2	2015	The directive provides the legal foundation for the development of a more integrated single market for electronic payments within the EU. It sets out rules for the licencing of payment institutions, such as those offering account information and payment initiation services. It also sets out rules on the transparency of conditions and information requirements for payment services. It outlines the rights and obligations of both payment service users and providers. It defines the security requirements for electronic payments and how consumers' financial data are best protected and how payments are to be completed to avoid fraud[11].
Interchange Fee Regulation	2015	The regulation caps interchange fees and increases the transparency on fees. This enables merchants to better know the fees paid when accepting a card payment. The fee is capped at 0.2% of the transaction value for consumer debit cards and 0.3% for consumer credit cards[12].

[9] Directive 2009/110/EC on the taking up, pursuit, and prudential supervision of the business of electronic money institutions, OJ L 267/7, 10.10.2009.

[10] Regulation (EU) No 260/2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009, OJ L 94/22, 30.3.2012.

[11] Directive (EU) 2015/2366 on payment services in the internal market, OJ L 337/35, 23.12.2015.

[12] Regulation (EU) 2015/751 on interchange fees for card-based payment transactions, OJ L 123/1, 19.5.2016.

Instant Payment Regulation	2024	The regulation aims to facilitate and increase the rollout of instant credit transfers in the EU. It requires PSPs that enable users to send and receive credits to also offer instant payments at the same or lower cost as a regular credit transfer. The transfer is to be completed in less than 10 seconds, 7 days a week, 365 days a year. The regulation also introduces additional safeguards to limit the exposure of users to fraud[13].

Source: Authors' compilation

Table 2.Payment related regulations in the EU

Legislation	Year approved	Impact on payments
General Data Protection Regulation	2016	The regulation protects individuals whose data are being processed by the public and private sector. It increases control over how personal data are shared. It also established an independent supervisory monitoring authority. This has direct impacts on payment processing, with requirements for consumer approval of data sharing, due diligence by third-party services, and how data breaches are handled[14].
European Accessibility Directive	2019	The directive seeks to harmonise the accessibility of certain products and services in the EU's single market to ensure that the market functions smoothly by removing potential barriers. This includes payment terminals and ATMs, consumer banking, and e-commerce[15].
Digital Operations Resilience Act	2022	The DORA Regulation outlines rules for the security of network and information systems of financial entities (e.g. banks, insurance companies, and investment firms). It includes payments and electronic money, and covers service providers of account information and crypto-assets[16].

[13] Regulation (EU) 2024/886 amending regulations (EU) 260/2012 and (EU) 2021/1230 and directives 98/26/EC and (EU) 2015/2366 as regards instant credit transfers in euro, OJ L series, 19.3.2024.

[14] Regulation (EU) 2016/679 on the protection of natural persons with regard to the processing of personal data and the free movement of such data, OJ L 119/1, 4.5.2016.

[15] Directive (EU) 2019/882 on the accessibility requirements for products and services, OJ L 151/70, 7.6.2019.

[16] Regulation (EU) 2022/2554 on digital resilience for the financial sector and amending Regulations (EC) No 1060/2009, (EU) 648/2012, (EU) No 600/2014, (EU) No 909/2014 and (EU) 2016/1011, OJ L 133/1, 27.12.2022.

Consumer Credit Directive 2	2023	The directive regulates credit agreements whereby consumers borrow money to buy goods and services. In payments, this applies to buy-now-pay-later services, where the consumer pays using credit[17].
Anti-Money Laundering Regulation	2024	The regulation aims at reducing money laundering and terrorist activities by increasing transparency and requirements to mitigate the risk of money laundering. These include improved due diligence processes. It has expanded to now include crypto-asset service providers. It also sets a limit for cash payments in the EU, at EUR 10 000[18].
European Digital Identity Framework	2024	The framework encompasses: • the EU Digital Identity wallet, allowing natural and legal persons to securely identify themselves via a mobile device in order to access private and public services; • mutual recognition of national electronic identification schemes, ensuring each Member State accepts electronic identification means from other Member States for cross-border authentication; • trust services, such as electronic signatures, seals and time stamps; and • universal access for EU residents to public and private services and full control of their data[19].

Source: Authors' compilation

1.2 CONSUMER BEHAVIOUR

In the euro area, cash continues to be the most frequently used means of payment by consumers at the POS, although the share of cash in total payments is declining. This has resulted from the increasing use of digital payments. As represented in Table , cash was the most commonly used payment method in the euro area in 2024, representing 52% of all POS transactions, down from 59% in 2022 and 72% in 2019. Card use increased to 39%, from 34% in 2022 and 25% in 2019. Meanwhile, the share of mobile app payments

[17] Directive (EU) 2023/2225 on credit agreements for consumers, OJ L series, 30.10.2023.

[18] Regulation (EU) 2024/1624 on the prevention and use of the financial system for the purpose of money laundering or terrorist financing, OJ L series, 19.6.2024.

[19] Regulation (EU) 2024/1183 amending Regulation 910/2014 as regards establishing the European Digital Identity Framework, OJ L series, 30.4.2024.

doubled over this period, representing 6% of all transactions. In 2019, they stood at only 1% of transactions. However, it is important to note that this shift did not occur equally across all Member States[20].

In terms of the value of payments, however, cards were the dominant means of payment, amounting to 45% of the money transacted, while cash represented 39% of all transactions. This indicates that for large amounts, euro area consumers preferred to pay by card rather than to carry cash. In 2019, cash was ahead of cards in this metric. The emergence of mobile app payments can also be observed when accounting for the value of all transactions, as it moved from 1% in 2019 to 7% in 2024.

Table 3. Shares of payment instruments used at the point of sale in the euro area (number and value of transactions), 2019-2024

Volume of POS payments				
	Cash (%)	Cards (%)	Mobile app[21] (%)	Other (%)
2019	72	25	1	2
2022	59	34	3	3
2024	52	39	6	4
Value of POS payments				
	Cash (%)	Cards (%)	Mobile app (%)	Other (%)
2019	47	43	1	8
2022	42	46	4	8
2024	39	45	7	8

Source: SPACE Study (ECB, 2024)[22].

Despite the downward trend of cash, over 60% of consumers in the euro area continue to deem it either very important or fairly important to have the option to pay with cash. As can be seen in Figure 1, there is only one euro area Member State where cash is not

[20] ECB (2024), 'Study on the payment attitude of consumers in the euro area (SPACE)', Frankfurt ('SPACE Study').

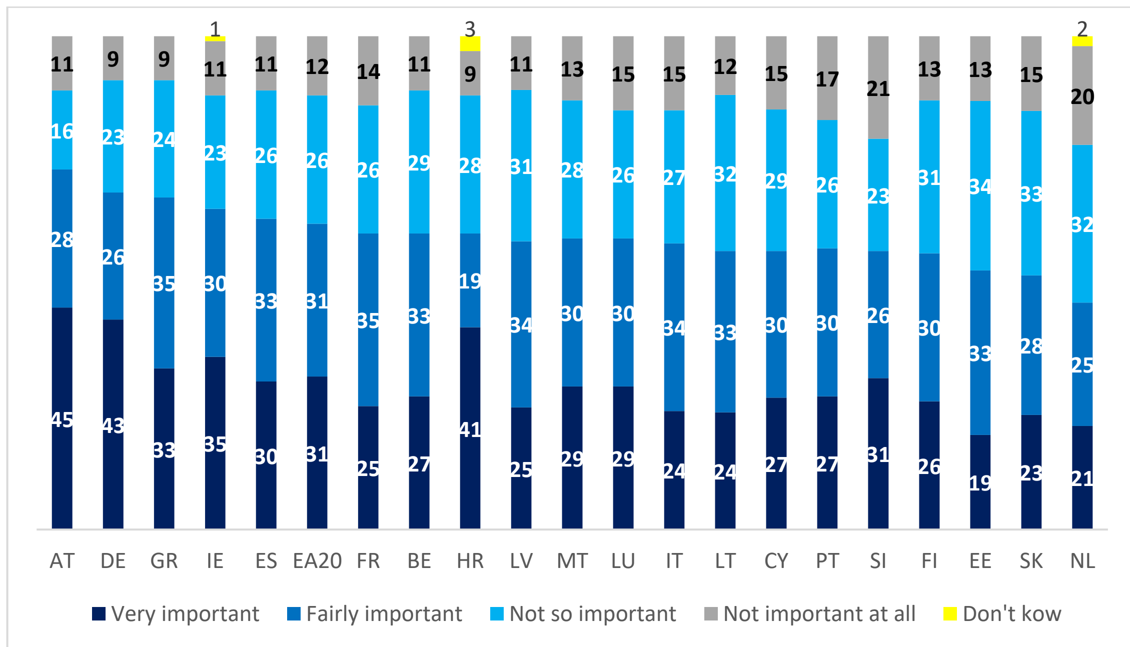
[21] The definition of mobile payment is based on the respondents' perceptions of what a mobile payment is; this includes but is not limited to digital wallets, banks mobile apps, or other country-specific mobile apps.

[22] ECB (2024), 'Study on the payment attitude of consumers in the euro area (SPACE)', Frankfurt.

considered important for more than half the population, namely the Netherlands – a decrease from three countries back in 2022[23].

It is essential to remember the asymmetry between national markets in these analyses. Consumers have different views of the respective payment methods across Member States. For example, in Germany and Austria, cash remains the most frequently used form of payment, accounting for 69% and 73% of transactions, respectively. By contrast, consumers in Sweden and Denmark use cash for only 28% and 35% of transactions, respectively[24]. This asymmetry also applies to preferences for non-cash payment methods, as seen in the figure below. This shows that payment behaviour differs in each Member State, which may be an obstacle to one-size-fits-all solutions across the EU.

Figure 1. The importance of having the option to pay with cash, by country (in %)



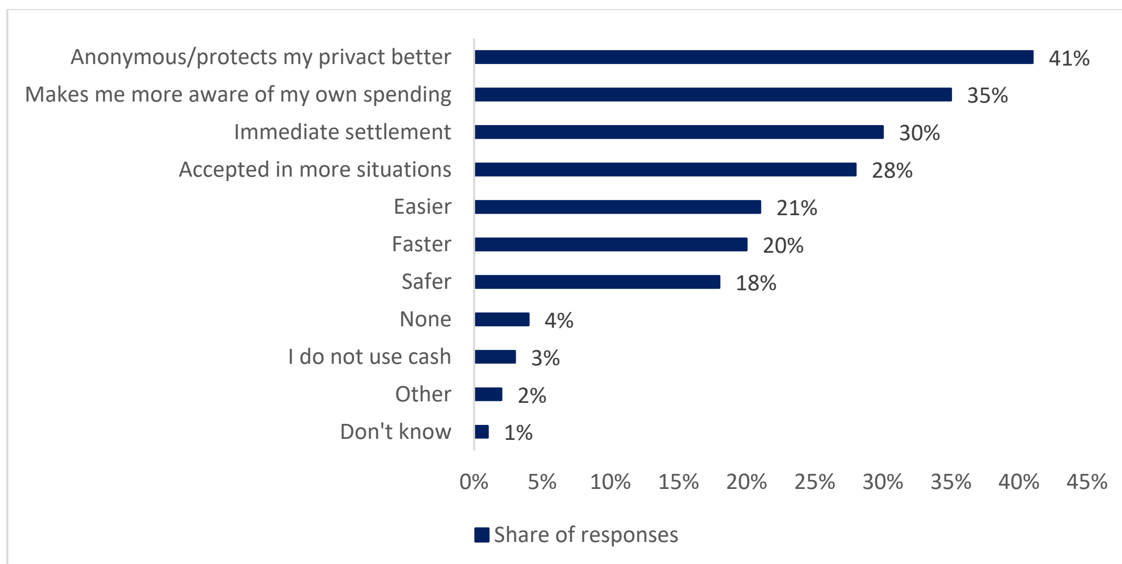
Source: SPACE Study (ECB, 2024).

The two main driving forces behind consumer preference for using cash for payments at the POS are spending awareness and privacy protection, as shown in Figure 2. Many consumers consider that paying in cash provides a more accurate perception of their spending. In addition, cash transactions offer the consumer greater privacy, as they don't leave a trace. This gives individuals a sense of security and eliminates the fear of their personal data being at risk.

[23] The Netherlands, Slovakia and Estonia.

[24] BearingPoint (n.d.), 'Payment behavior across Europe – Use of cash and digital euro in a country comparison'.

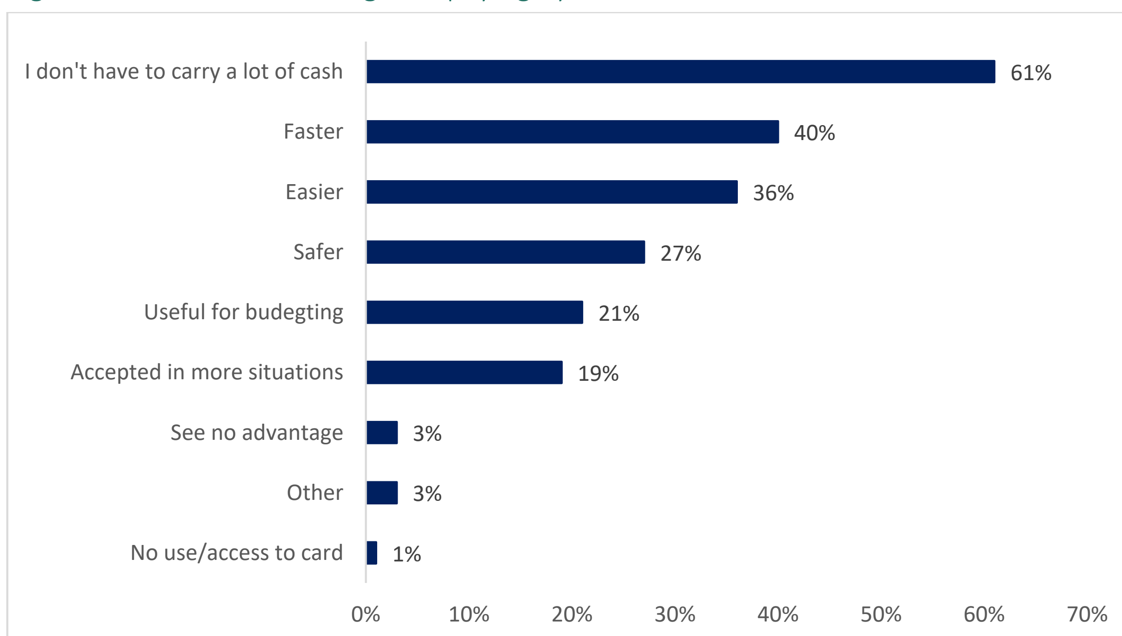
Figure 2. Perceived advantages of paying with cash at the point of sale



Source: SPACE Study (ECB, 2024).

As shown in Figure 3, the convenience of not having to carry cash is the main reason expressed by consumers for using a card to pay at the POS. That is because it removes the stress of carrying money and the worry of not bringing enough. Other key factors supporting consumer card usage are the speed of payment and ease of use. Today, cards can be used in multiple ways when paying at the POS, increasing the simplicity of paying. Finally, safety plays an important role in consumer preferences for card use.

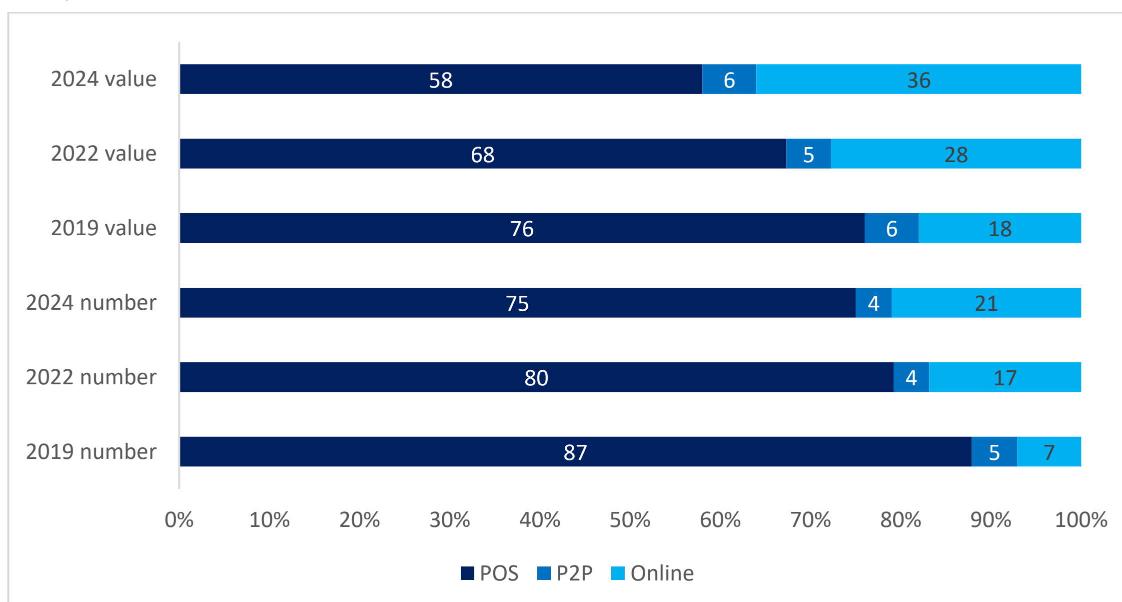
Figure 3. Perceived advantages of paying by card at the POS



Source: SPACE Study (ECB, 2024).

POS transactions dominate in terms of volume and value, but consumers are increasingly favouring online transactions[25] for non-recurring operations, according to the latest ECB SPACE Study on the payment attitudes of consumers in the euro area from 2024. As seen in Figure 4, the share of POS transactions declined by 5 percentage points (pp) in comparison with 2022 in terms of the number of transactions and 10 pp in terms of value. Furthermore, online transactions gained significance over the period, increasing by 4 pp as a share of the total number of transactions and 8 pp in transaction value since 2022.

Figure 4. Volume and value of non-recurring payments by payment situation in the euro area, 2019-2024



Source: SPACE Study (ECB, 2024).

New digital payment solutions show signs of change in how consumers pay online. The most widely used payment method for online transactions was a card, though its use declined after 2019 in favour of other digital payment options, to being used in less than half of online payments. In terms of the number of payments, there was an overwhelming preference for e-payment solutions in the Netherlands (76%), followed by Germany (46%), and Portugal (33%). In 10 euro area countries, more than 50% of the volume of online transactions were executed with cards. Value-wise, electronic payment solutions stood for remarkable shares in the Netherlands (66%) and Germany (33%). Card use was

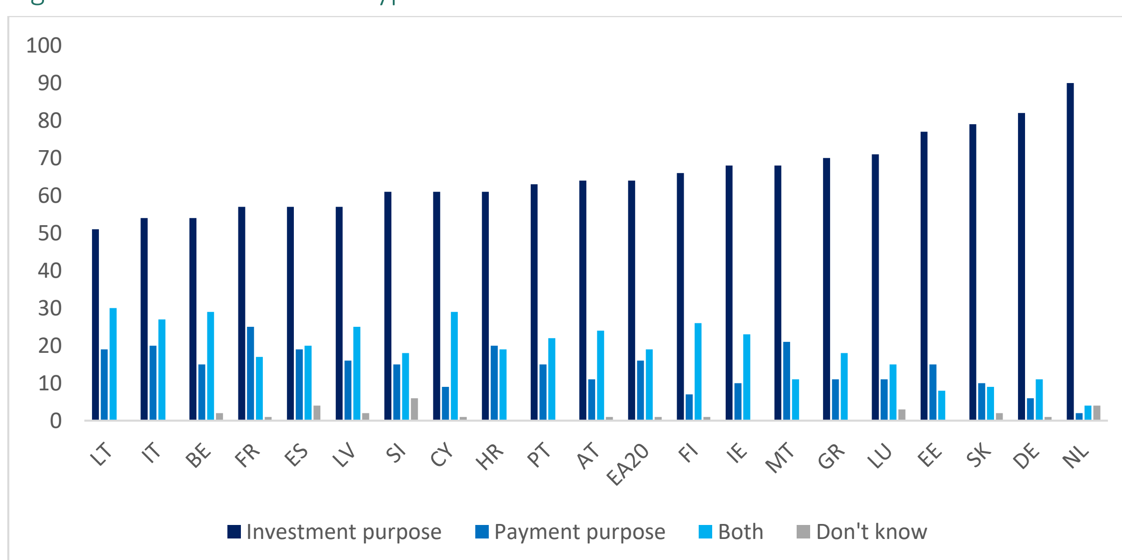
[25] Online payments include any payments made online except for regular bill payments such as for electricity or rent. The term refers to the moment of payment, meaning that any orders made online but paid for at the point of sale (e.g. while picking up food from a restaurant or paying a courier at the door) are classified as POS payments.

prevalent in Cyprus, accounting for 65% of the value of online transactions, as well as in Malta (59%) and Lithuania (54%)[26].

For peer-to-peer (P2P) transactions, cash remained the preferred payment method, representing 41% of P2P payments in the EU in 2024, with mobile payments at 36%. In terms of the value of transactions, Lithuania and Slovakia used cash the most for P2P payments, in 47% and 43% of payments, respectively. Belgium and Ireland were on the opposite side of the spectrum, with the least use of cash at 8%. The main way of making P2P payments in these countries were cards and mobile apps, respectively amounting to 41% and 50% of value[27].

Possession of crypto-assets remained at very low levels in the euro area, ranging from 6% in Germany and the Netherlands to 15% in Slovenia. As can be deduced from Figure 5, investment and not payment was the main purpose of crypto-asset possession across all Member States. If the popularity of purchasing and holding crypto continues to rise, it is likely that crypto could become a more common means of payment[28]. An initial tendency supporting that argument can already be witnessed, as in comparison with 2022, the EU average use of crypto for payment purposes increased from 10% to 16%.

Figure 5. Consumer use of crypto-assets



Source: SPACE Study (ECB, 2024).

[26] ECB (2024),'Study on the payment attitude of consumers in the euro area (SPACE)', Frankfurt.

[27] Ibid.

[28] Arnal, J., Andersson, F. and Pozo Pérez, B. (2024), 'Priorities of the next European Commission for payments', CEPS and ECRI, Brussels.

The advent of new digital and innovative means of payment, combined with changes in consumer behaviour have also made fraud an increasing concern, further discussed in Section 4. According to the latest data from the European Banking Authority (EBA) and the ECB for 2022 to the first half of 2023, fraud rates in relative terms (i.e. fraud as a share of the total value of transactions) remained at low and stable levels for credit transfers, direct debits, and cash withdrawals[29]. However, the market fears a change in the coming years.

1.3 THE SINGLE MARKET

Most payments in the EU occur between a buyer and seller located in the same country. Equally, most European payment solutions operate nationally, with the European market lacking a fully home-grown method for pan-European digital payments. Although several initiatives have been launched to fill that void, technical interoperability challenges remain, alongside commercial and legal obstacles that impede full eurozone availability and acceptance, as well as different customer preferences across countries. Nonetheless, at the moment there is political momentum to reduce regulatory and technical barriers, with geopolitical uncertainty and competitiveness concerns provoking a push towards increased European resilience and reduced dependency on non-European providers.

Regardless, at the moment international payment schemes remain the only providers of cross-border card payments at the point of interaction across the EU[30]. Their market position goes beyond those transnational transactions, as 61% of card transactions in euro are facilitated by international card schemes. In fact, 13 Member States do not have a national card scheme and fully rely on international one[31]. Despite past initiatives, the European card industry has failed to create an independent EU-wide card scheme. Although the EU enjoys well-functioning domestic card markets, pan-European card acceptance across the euro area is entirely reliant on co-branding with international card schemes[32].

In addition to the domestic card schemes, in a majority of Member States there are other national payment solutions, mostly based on account-to-account infrastructure. While traditionally these have largely operated within national borders, many are now seeking to expand cross-border. As a result, the providers of these national payment systems are

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[29] EBA and ECB (2024), '2024 Report on Payment Fraud', Île-de-France and Frankfurt.

[30] Letta, E. (2024), 'Much more than a market – Speed, security, solidarity empowering the Single Market to deliver a sustainable future and prosperity for all EU Citizens', 18 April.

[31] ECB (2025), 'Report on card schemes and processors,' Frankfurt.

[32] Bruggink, D. (2022), 'The internal cards market in Europe from 2002 to 2020: A success or a failure?' Journal of Payments Strategy & Systems, 16(3), pp. 265-276.

increasingly those driving the dynamic development of more diverse, pan-European initiatives.

1.4 THE MERCHANT EXPERIENCE

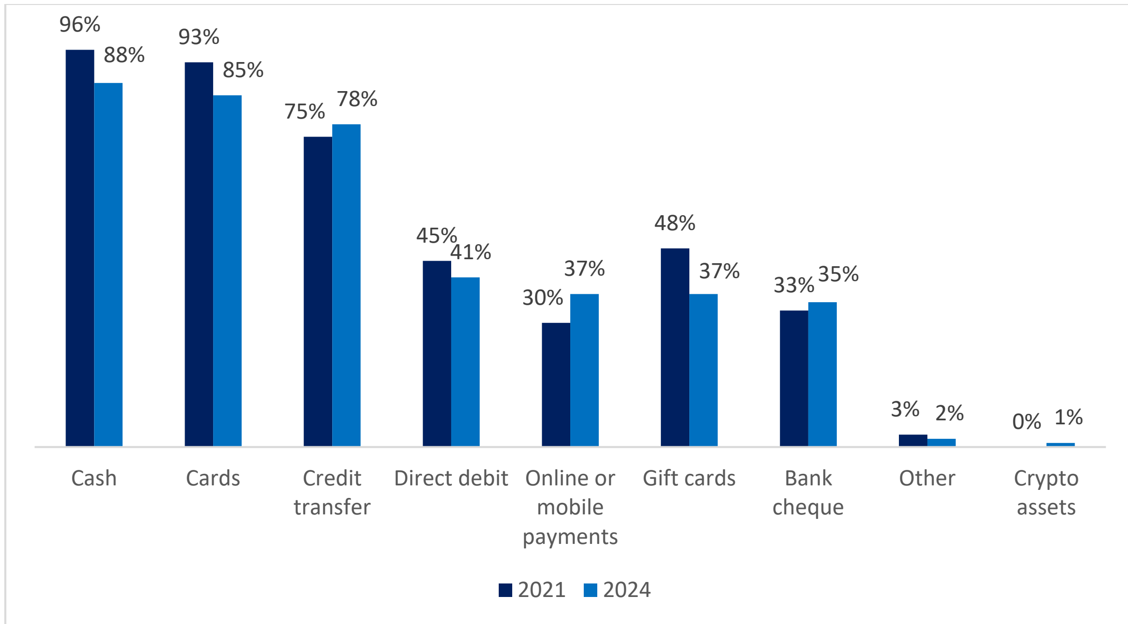
Digitalisation offers merchants access to a broader range of potential customers. At its best, digital payments can be used for transactions in a wide range of geographical locations, with a good user experience and low levels of fraud. In the digital consumer journey, merchants prioritise conversion rates and the ability to offer their customers' preferred payment methods. However, they need to balance these priorities with considerations of the relative cost of payments. As most consumers are largely unaware of the average costs of accepting different payment methods, merchants are the main proponents of reducing them[33]. Larger merchants tend to choose the most integrated payment solutions, which are easy for them and their customers to use. For small to medium-sized enterprises (SMEs), the focus is likewise on the ease and local usage of a payment method, while balancing the security of payments with an affordable pricing level.

For them, the use of cash presents an advantage – the predictability of management costs. The fees related to managing cash are fixed, in comparison with card or digital payments, where in most cases the cost is relative to the transaction value. However, studies have shown that the total cost of cash management for merchants and banks is increasing, driven by the cost of storing, counting, and depositing cash. This is especially true in markets where the use of cash has fallen, as the unit prices remain the same while the amount transported has reduced[34]. Cash is the most widely accepted payment method by merchants, followed by credit cards, as can be seen in Figure 6.

[33] Heumer, G. (2023), 'Making payment services more effective and less costly', SMEunited, 7 December.

[34] Junius, K., Devigne L., Honkkila, J. et al. (2022), 'Costs of retail payment – An overview of recent national studies in Europe', Occasional Paper No 294, ECB, Frankfurt; Hayashi, F. (2021), 'Cash or Debit Cards? Payment acceptance costs for merchants', Federal Reserve Bank of Kansas City; Faas, A. (2024), 'For retailers, 'cash' is not always 'king'', Position Paper, EuroCommerce, Brussels.

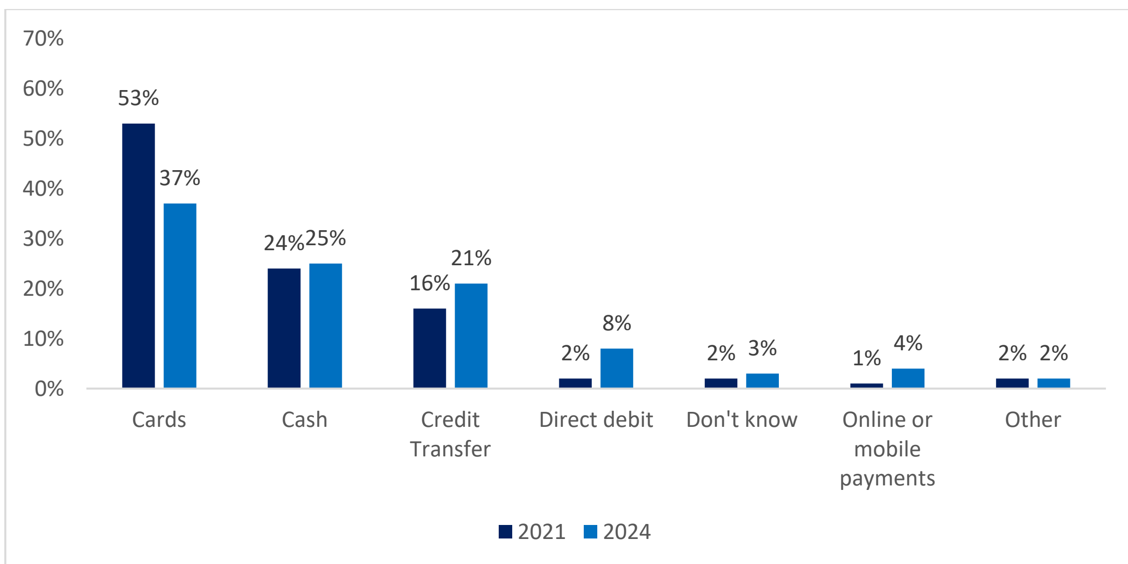
Figure 6. Means of payment accepted by companies in the euro area



Source: SPACE Study (ECB, 2024).

Even if cash is the most widely accepted payment method, merchants show higher preference for cards. This opinion nevertheless saw a significant 16 pp decline between 2021 and 2024, as observed in Figure 7. The preference for cash remained stable, with a quarter of merchants favouring cash over all other payment methods. The preference for other digital payment methods increased by 5% for credit transfers and 6% for direct debits. Online and mobile payments also grew more popular among European merchants, but only marginally.

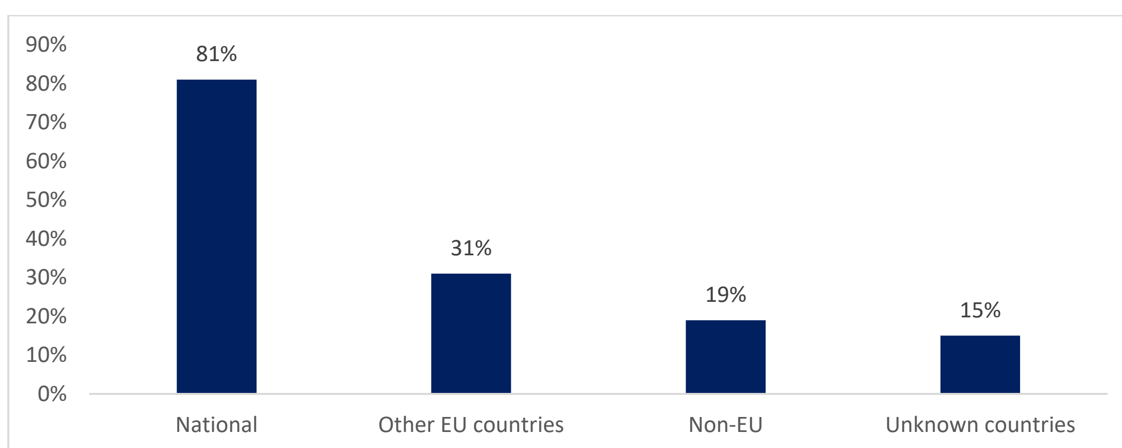
Figure 7. Merchants' preferred means of payment in the euro area



Source: SPACE Study (ECB, 2024).

The reason behind a preference for digital payments is likely tied to the additional security of cashless payment solutions, avoiding the need to hold money at the location. Moreover, from the merchant's perspective, the cross-border and e-commerce markets are expanding significantly and offer appreciable room for growth. According to a report by Ecommerce Europe and EuroCommerce, in 2021 business-to-consumer turnover in e-commerce reached approximately EUR 899 billion in the EU, equivalent to about 6% of EU GDP[35]. E-commerce trade in the EU encompasses both national and cross-border transactions. While domestic e-commerce remains important, cross-border sales have also gained prominence. As can be seen in Figure 8, 31% of the individuals who made an online purchase in the last quarter of 2022 did so from other EU countries.

Figure 8. Share of individuals in the EU who made an online purchase in the last quarter of 2022



Source: European e-commerce report 2023[36].

Merchants are increasingly accepting more means of payments and adjusting to consumer payment preferences. There is a growing trend for a more customised and even personalised consumer journey, with a growing offer of 'invisible payment journeys' – such as merchant-initiated transactions, recurrent payments, and direct debits – to ensure a seamless customer experience. These are becoming *must have* capabilities for payment companies that aspire to gain substantial market share. Some large merchants are now offering their own branded digital wallets and loyalty cards[37].

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[35] Based on Ecommerce Europe and EuroCommerce (2023),' European e-commerce report 2023', Amsterdam University of Applied Sciences & Ecommerce Europe.

[36] Idem.

[37] Such as IKEA, Aldi, Carrefour and El Corte Inglés.

1.5 FUTURE DEVELOPMENTS IN EUROPEAN PAYMENTS

1.5.1 The retail payments strategy of the EU

In their latest regulatory proposals, European policymakers are trying to further direct the European payments market by creating the conditions needed to ensure a dynamic and innovative market, which combines security with ease of use for consumers. To foster the development of innovative solutions, the market must be competitive, underpinned by a level playing field that allows new instruments to emerge within a well-regulated environment, with a balance between technological progress and consumer safety. As consumer behaviour continues to evolve and technologies change, increased competition, changes in user experience, and new concerns about consumer protection are expected. The new regulations are formulated not only to address current challenges, but also to be future proof.

The EU's approach to EU payments can be found in the retail payment strategies of the European Commission and the Eurosystem, which are broadly aligned. Briefly, the European Commission's strategy focuses on policy and the good regulation of payments, for a competitive, secure, and innovative payments market. The Eurosystem's strategy promotes European retail payment methods that are safe and efficient for society as a whole, with a view to meeting the growing challenges to European sovereignty in the payments market. In this regard, the main goals of the strategy are to develop pan-European solutions for payments at the point of interaction, which are governed at the European level, and to further strengthen the 'classic' SEPA, primarily through the full deployment of instant payments. The retail payments strategy and digital euro are complementary.

The European Commission also wishes to enable pan-European payments for in-store and online transactions. The ambition is to create an environment that provides frictionless cross-border payments, increasing market integration. As observed earlier in the report, numerous new initiatives are being developed based on account-to-account payments. While these initiatives are currently limited to national or regional markets, many aim to extend their reach across borders. Furthermore, many are based on instant payment instruments recently supported by the dedicated regulation.

These strategies will now have to be combined with new EU priorities. Today, these focus on increasing competitiveness, fostering innovation, simplifying and increasing the

flexibility of the regulatory environment, and removing barriers to the single market, as described in the Draghi and Letta reports and the recent competitiveness compass[38].

1.5.2 Upcoming regulations

European co-legislators have been developing numerous new regulations that will influence consumer payments.

A major revision has taken the form of two new payment proposals, for the Payment Services Directive 3 (PSD3) and the Payment Services Regulation (PSR). Replacing PSD2, PSD3 seeks to resolve concerns about a level playing field that have persisted under PSD2. A study by the Commission observed that not all PSPs were competing on equal footing. It further highlighted that the ambition of promoting open banking had only partially been achieved, with uptake levels below targets, mainly because of issues in accessing data. Finally, while the strong customer authentication (SCA) system set up under PSD2 has been successful in reducing fraud levels in digital payments, the provisions under the directive cannot address new forms of fraud not anticipated in the Commission's drafting.

On basis of these identified problems, PSD3 proposes numerous solutions. For example, it clarifies how non-bank PSPs can open a bank account, as well as the basis on which such a request can be declined, and under what circumstances a PSP can appeal a declined demand.

Together with PSD3, the PSR was proposed. The Commission's decision to present a regulation was based on a desire to better harmonise the obligations of PSPs. Under PSD2, there were discrepancies in how Member States implemented and enforced certain rules. This has a direct impact on competition between players. One of the main aspects to be introduced, for homogeneity in the market, is relevant definitions in the regulation. This will ensure that there is no circumvention of the intentions of regulators, by removing the possibility for payment companies to search for jurisdictions with the most lenient definitions and establish their activities there. Other examples of provisions brought under the regulation are aspects of consumer protection, including transaction monitoring and the sharing of relevant information between PSPs.

The Commission also presented a new regulatory framework to enable both consumers and businesses ongoing access to their financial data at all times, the Financial Data Access Regulation (FIDA). The proposal also introduces a regulation on how data should be shared between market players, intending to create a two-way street between data

[38] European Commission (2025), '[A competitive compass for the EU](#)', Communication, COM(2025) 30 final, 29 January.

holders. Measures considered under FIDA seek to provide safeguards in the access to and use of data, with only licenced entities being able to access data.

Finally, another market area that has been given greater legal certainty is that of crypto-assets, following adoption of the Market in Crypto-Assets Regulation (MiCA). It requires crypto-assets, asset-referenced tokens, and e-money tokens to follow uniform rules across Member States. The introduction of rules better ensures financial stability and consumer protection. Until recently, crypto-assets have remained largely disconnected from traditional finance, with major financial institutions playing only a marginal role. However, traditional financial actors are now showing growing interest, with some beginning the process of issuing their own crypto-assets[39]. Nevertheless, the use of crypto-assets as a means of payment is still very marginal[40]. Uptake in the EU remains limited, with a euro area average of 9% of the population holding crypto, but it does represent more than a doubling compared with 2022 when the uptake rate was 4%[41]. Still, the Commission's decision to put forward MiCA is an indicator that it expects that crypto is here to stay.

[39] Andersson and Arnal (2024), 'Why would a traditional financial player be interested in issuing a stablecoin?', CEPS and ECRI, Brussels

[40] Andersson and Arnal (2024), 'A radiography of crypto-assets', CEPS and ECRI, Brussels.

[41] European Securities and Markets Authority (2024), 'Crypto assets: Market structures and EU relevance', ESMA TRV Risk Analysis, Paris.

2 Competition in the payments market and strategic autonomy

Summary

- While PSD2 has increased competition, its implementation has revealed areas for improvement, with just 5% of consumers having used open banking by 2021. The PSD2 framework assumed low implementation costs for account servicing payment service providers (ASPSPs), which turned out to be significantly higher. Additionally, the absence of a harmonised standard for application programming interfaces (APIs) led to technical fragmentation. This is why a mutually beneficial approach for both Third-Party Providers (TPPs) and banks was sought, resulting in the SEPA Payment Account Access (SPAA) scheme.
- In 2023, the Commission proposed FIDA, which goes beyond payments and introduces open finance. The existence of two different regimes – with PSD3/PSR for open banking (with compensation covered by the SPAA scheme) and FIDA for open finance – is inconsistent and may run counter to the European Commission's objective of simplifying legislation.
- The Instant Payments Regulation brings forward relevant regulatory developments with a positive effect in terms of competition. It amends the Settlement Finality Directive granting non-bank PSPs direct access to the ECB's payment systems without having to rely on a commercial bank as an intermediary. Equally, it puts pressure on existing payment schemes by reducing reliance on traditional card networks. Success will depend on their ability to offer alternatives that match or surpass those proposed by cards.
- The European ecosystem for card payments consists of several types of fees. Regulatory intervention in pricing mechanisms has played a significant role, especially the Interchange Fee Regulation, which capped interchange fees. Yet, the scheme fees charged by international card networks remain largely unregulated and lack transparency.
- Non-European card schemes dominate card payments and are the only payment solutions besides cash that can be used across Europe at the POS. To ensure a well-functioning European payments system, competition is necessary. In that regard, fostering strategic autonomy is not about

restricting international providers, but ensuring that the payments landscape in Europe is diverse and resilient.

- One of the objectives of both the Eurosystem's and European Commission's Retail Payment Strategies is that 'competitive home-grown and pan-European payment solutions are available at POS'. Since then, new options have been brought to the table: (i) a public initiative by the ECB with the digital euro project and (ii) industry-led initiatives, like the European Payments Initiative, the European Payments Alliance (EuroPA), and the European Retail Payments Framework.

Competition and strategic autonomy are complementary objectives in the European payments landscape. A competitive market fosters efficiency, consumer choice, and innovation, while strategic autonomy will help Europe remain resilient and adaptable in a dynamic global environment.

The introduction of regulatory frameworks such as PSD2, the Instant Payments Regulation, and MiCA has aimed to enhance competition by enabling new market entrants, increasing transparency, and fostering greater innovation. However, for competition to be fully effective, the payments ecosystem must also offer a diverse set of secure and efficient payment solutions that can function seamlessly across borders.

One of the key discussions in this context is how to strengthen Europe's payments infrastructure while maintaining an open and competitive market. Today, European consumers and businesses benefit from a range of payment solutions provided by both European and global players, each contributing to the ecosystem's efficiency, security, and innovation. To maintain and further develop this competitive environment, regulatory clarity and interoperability are essential. So too are market-driven incentives that encourage investment in instant payments, open banking, and digital finance.

At the same time, fostering strategic autonomy in payments does not imply excluding or restricting international providers. Rather, it is about ensuring that Europe has a strong and diverse payments ecosystem, where multiple providers – both European and global – can operate on a level playing field. The digital euro as well as some private-led initiatives, such as the European Payments Initiative, EuroPA or European Retail Payments Framework, aim to complement existing solutions by offering additional choices to consumers and businesses, particularly in areas where further resilience and interoperability are needed.

A well-balanced regulatory framework should continue to promote innovation and competition, and maintain Europe's position as a global leader in secure and efficient payments. In doing so, cooperation between European and international players will remain crucial for sustainable and future-proof payments.

2.1 THE IMPACT OF EU PAYMENTS LEGISLATION ON COMPETITION

In recent years, the European payments market has undergone significant regulatory changes. A major milestone in promoting competition and the appearance of new market players was the introduction of PSD2 in 2018, which regulated the market for third-party providers in open banking. Open banking is a data access concept obliging servicing ASPSPs, typically banks, to allow their customers to share their payment account data with third-party providers via APIs[42]. Indeed, previously dominated by banks, the sector has seen new payment solutions reshape consumer habits and competition dynamics.

Yet, while PSD2 has driven greater competition, its implementation has revealed areas for improvement, with just 5% of consumers having used open banking by 2021[43]. Several hurdles explain why greater uptake could not be achieved. The PSD2 framework assumed low implementation costs for ASPSPs. But a European Commission review estimated that the one-off cost of API development for the industry amounted to EUR 2.2 billion, with annual recurring costs of around EUR 0.3 billion – a burden largely shouldered by ASPSPs[44]. Additionally, the absence of harmonised API implementation has led to technical fragmentation, creating barriers for third parties attempting to offer seamless services across different banking systems[45].

PSD2 creates a non-contractual right of access at no cost. Although premium services can still be monetised, this has resulted in strongly misaligned incentives for banks, which were required to provide high-quality APIs without being financially compensated for their investment or able to rely on a harmonised API standard. This is why the Euro Retail Payments Board (ERPB) engaged in work to find a mutually beneficial approach for both third-party providers and banks, which led to the SPAA scheme developed by the European Payments Council. It covers the set of rules, practices, and standards that will

[42] Premchand, A. and Choudhry, A. (2018), 'Open Banking & APIs for Transformation in Banking', 2018 International Conference on Communication, Computing and Internet of Things (IC3IoT), pp. 25-29.

[43] McGuinness, M. (2023), 'From Open Banking to Open Finance: What Does the Future Hold?', Keynote speech, European Parliament, European Commission Press Corner, 21 March.

[44] European Commission (2023), 'A study on the application and impact of Directive (EU) 2015/2366 on Payment Services (PSD2)'.

[45] European Court of Auditors (2025), 'Digital payments in the EU – Progress towards making them safer, faster, and less expensive, despite remaining gaps', Special Report 01/2025, Luxembourg.

allow for the exchange of payment account-related data and facilitates the provision of premium services from an ASPSP to a third-party provider.

Subsequently, in 2023, the Commission proposed a different financial compensation model in FIDA, which goes beyond payments, introducing open finance. It includes a mechanism that would allow data holders to seek compensation for making customer data available in a standardised form[46]. FIDA introduces the concept of open finance and the possibility of sharing data beyond payment accounts, like data on loans, savings, investment, pensions, and non-life insurance products, with consumer consent.

In line with the setup proposed by the Commission, open banking would be regulated under PSD3/PSR and open finance under FIDA. The existence of two different regimes, one of them under PSD3/PSR for open banking (with the compensation model covered under the SPAA scheme), and the other under FIDA for open finance, is not only inconsistent. It may also run counter to the European Commission's objective of simplifying legislation and reducing regulatory burdens. Having two systems increases complexity, with the risk of creating confusion among market players and in some cases doubling regulatory requirements.

Meanwhile, from the perspective of third-party providers, the lack of incentives for banks and other data holders has resulted in APIs that delivered minimum compliance with the regulation. This, along with the technical fragmentation resulting from the absence of unified implementation, has hampered the provision of services by third-party providers or at least reduced their quality, which has contributed to a reduced uptake of open banking.

A relevant regulatory development in this regard was brought forward by the Instant Payments Regulation, which amended the Settlement Finality Directive. This amendment grants non-bank PSPs, such as e-money institutions and payment institutions, direct access to designated payment systems, including TIPS[47], without the need to rely on a commercial bank as an intermediary. It was followed by the publication by the Eurosystem of an harmonised policy on non-bank PSPs access to central bank operated payment systems and accounts in July 2024[48] and a decision implementing that policy in

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[46] Arnal, J. and Andersson, F. (2024), '[FIDA: Is the EU prepared to move from Open Banking to Open Finance?]' CEPS and ECRI, Brussels.

[47] ECB (n.d.), ['What is TIPS?'], Frankfurt.

[48] ECB (2024) '[Policy on access by non-bank payment service providers to central bank-operated payment systems and to central bank accounts]', Frankfurt

January 2025[49].By eliminating this dependency, the reform reduces operational costs and settlement risks, and enhances market competition, thus enabling non-bank PSPs to offer faster, more cost-efficient payment services. This move is particularly important in fostering a level playing field, as it empowers fintechs and other payment institutions to compete more directly with traditional banks in the provision of instant payments, ultimately driving greater innovation, efficiency, and accessibility in the European payments landscape[50].

In response to the challenges identified in the implementation of PSD2, two potential approaches could improve the efficiency and adoption of open banking services. One would be to enhance existing centralised API hubs[51] – API aggregation services developed by third-party providers that permit other third-party providers to buy, rather than build, the necessary API integrations themselves. These hubs aim to standardise and streamline the integration process for third-party providers by offering a unified platform to access multiple banks' data and services. By providing a single point of access, API hubs reduce technical fragmentation and lower the barriers to entry for third-party providers, facilitating a more seamless and efficient deployment of open banking services.

Another perspective approach posits that TIPS could fundamentally reshape the payments landscape, making APIs almost unnecessary. TIPS enables instant settlement in central bank money, ensuring that payments are executed without credit risk[52], which complements existing commercial bank-based infrastructure. As more financial institutions and PSPs integrate with TIPS, the infrastructure could help drive real-time settlement efficiency across multiple payment channels, supporting both account-to-account payments and other digital payment solutions.

Yet, for TIPS to fully replace APIs, several factors need to be considered. At the moment, TIPS focuses on the interbank sphere and not on the communications between PSPs and their users. Indeed, while TIPS provides for direct payment settlement, front-end solutions such as digital wallets and mobile banking apps would still require API-based authentication and customer interaction layers for a seamless user experience. Additionally, full adoption of TIPS across e-commerce, retail, and B2B transactions would

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[49] ECB (2025) 'Decision of the ECB on access by non-bank payment service providers to central bank-operated payment systems and to central bank accounts', Frankfurt

[50] Halder, K. (2024), 'ECB grants non-bank PSPs access to eurozone settlements', Delano Finance, February.

[51] Montiero, L. (2021), 'Fable Fintech launches API Hub to accelerate open banking adoption', IBS Intelligence, December.

[52] Bayle de Jessé, M. (2018), 'TARGET Instant Payment Settlement: The Eurosystem's response to an evolving payments landscape', Journal of Payments Strategy & Systems, 12(4), pp. 322-327.

require widespread integration and standardisation, which remains an ongoing issue for the industry[53]. Finally, the shift from traditional payment methods to account-to-account payments would largely depend on merchant incentives, regulatory support, and consumer preferences, all of which will play a crucial role in shaping the future of instant payments[54].

Beyond the already mentioned amendment to the Settlement Finality Directive, the introduction of the Instant Payments Regulation has also had an impact on competition in its aim to provide an alternative to card-based transactions by facilitating real-time transfers at a lower cost. Instant payments can put competitive pressure on existing payment schemes by reducing reliance on traditional card networks. Their success will depend on their ability to offer alternatives that match or surpass those proposed by cards taking into account that both instruments have their own characteristics, specific use cases, and advantages[55]. Nevertheless, multiple national instant payments solutions have emerged across Europe, with many of them gaining a significant market share. Private pan-European initiatives are also leveraging instant payments.

However, for instant payments to compete effectively, several conditions must be met:

- sufficient infrastructure investment, including the adoption of Near Field Communication (NFC) technology and integration with existing POS systems[56];
- merchant and consumer trust, requiring mechanisms for fraud prevention and dispute resolution;
- regulatory and market incentives, so that instant payments remain cost-effective and interoperable across the EU.

One of the biggest challenges for instant payments is cost parity with other forms of payments. The Instant Payment Regulation, with a view to removing pricing disincentives for instant credit transfers, mandates that where charges apply, these should not exceed those applicable for regular credit transfers[57].

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[53] Frost, J., Koo Wilkins, P., Kosse, A., Shreeti, V. and Velasquez, C. (2024), 'Fast payments: Design and adoption', BIS Quarterly Review, March.

[54] Dresner, A. and Gandhi, A. (2024), 'The role of US open banking in catalyzing the adoption of A2A payments', McKinsey & Company, January.

[55] Bruggink, D. and Benevelli, A. (2022), 'Instant payments and cards: Apples and oranges or a possible substitute?', Journal of Payments Strategy & Systems, 15(4), pp. 398-409.

[56] ECB (2024), 'Instant Payments Regulation', Frankfurt.

[57] Arnal, J. and Andersson, F. (2024), 'Making instant and inclusive payments a reality in the EU', CEPS and ECRI, Brussels.

Finally, MiCA covers another regulatory field that could bring a new source of competition to payment systems. It provides a uniform framework across EU Member States for crypto-assets, asset-referenced tokens, and e-money tokens. Its goal is to ensure financial stability and consumer protection while providing legal certainty for market participants. By creating a clear regulatory environment, MiCA lowers barriers to entry for financial institutions and fintech companies seeking to integrate crypto-assets into their payment offerings.

While some traditional financial actors have started exploring the issuance and use of regulated crypto-assets, the role of crypto-assets in payments remains marginal[58]. Several complications have hindered their widespread adoption, including price volatility, regulatory uncertainty in global markets, scalability issues, and limited merchant acceptance. Although e-money tokens and asset-referenced tokens could, in principle, serve as stable and regulated alternatives for digital transactions, their use in everyday payments has not yet gained traction in the EU. The development of this segment will depend on factors such as merchant incentives, consumer trust, interoperability with existing payment infrastructure, and the potential issuance of a digital euro. For now, while crypto-assets represent a theoretical competitor to traditional payment rails, their impact on competition in the European payments market is still largely unrealised.

In any case, while it's undeniably important to establish clear legislation that strikes an appropriate balance between fostering innovation, protecting consumers, and maintaining fair competition among market players, it's equally essential for new market entrants to focus on developing robust and well-structured business models. Regardless of the payment infrastructure they utilise, without a solid business model in place, new participants will struggle to secure a sustainable and competitive position in the market. Long-term success will depend not only on compliance with regulatory standards but also on the strategic planning and operational foundation that a strong business model provides.

2.2 PRICE REGULATION AND COMPETITION IN THE PAYMENTS MARKET

The European ecosystem for card payments consists of several types of fees that influence the cost structure for merchants, consumers, and financial intermediaries. The most relevant among them are interchange fees, scheme fees, and processing fees, and merchant service charges, each of which impacts pricing dynamics and competitive conditions in digital payments.

[58] Andersson, F. and Arnal, J. (2024) 'Why would a traditional financial player be interested in issuing a stablecoin?', CEPS and ECRI, Brussels.

- Interchange fees are paid by the merchant's bank (or acquiring PSP) to the consumer's bank (issuing PSP)for processing card transactions. These fees are set by card networks and regulated, or capped, under the Interchange Fee Regulation (IFR). Visa and Mastercard have historically held significant positions in the EU's payment card market, prompting the European Commission to examine their interchange fee structures and business practices.

- Scheme fees are charges imposed by card schemes for using their brand and infrastructure. They have a complex structure, including (i) mandatory fees or core scheme fees, (ii) core processing fees, (iii) optional fees, and (iv) behavioural fees[59]. Both issuing and acquiring PSPs pay scheme fees. Unlike interchange fees, scheme fees are unregulated.

- The merchant service charge is the total cost a merchant pays to the acquiring PSP for processing the transaction, and is usually composed of the acquirer margin, the interchange fee, and the scheme fee. While large merchants can achieve lower merchant service charges by negotiating the acquirer margin, SMEs often face higher per-transaction costs, exacerbating competitive disparities in the market.

Regulatory intervention in pricing mechanisms have played a substantial role in shaping competition within the European payments market. While such measures are often introduced to correct market distortions, enhance transparency, and protect consumers, their design can also lead to inefficiencies or unintended competitive imbalances[60].

2.2.1 Interchange fee regulation and market dynamics

One of the most significant price interventions in the European payments market has been the IFR, which caps interchange fees at 0.2% for debit card transactions and 0.3% for credit card transactions. The regulation sought to correct market imbalances by addressing the issue of reverse competition, where card schemes competed to attract issuing banks by offering higher interchange fees rather than focusing on merchant benefits. While the IFR led to lower interchange fees[61], the broader impact on the cost of

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[59] UK Payment Systems Regulator (2025), 'Market review of card scheme and processing fees', Final Report, MR22/1.10, London.

[60] Verdier, M. (2011), 'Interchange fees in payment card systems: A survey of the literature', Journal of Economic Surveys, 25(2), pp. 273-297.

[61] European Commission (2020), 'Study on the application of Regulation (EU) 2015/751 on interchange fees for card-based payment transactions'.

payments remains ambiguous[62]. Studies suggest that merchant service charges have not declined proportionally[63], as issuing banks and PSPs have sought alternative revenue streams because they are facing increased scheme fees and processing fees[64].

According to a report by the European Commission's Directorate-General for Competition (DG COMP)[65], the IFR has effectively reduced interchange fees, which have stayed below the established caps. Even so, the report also highlights divergent trends in merchant service charges between 2018 and 2022: while merchant service charges for debit card transactions rose, those for credit card transactions fell. This suggests that acquirers and issuers have adjusted their pricing structures in response to the IFR, potentially passing costs onto merchants in different ways. Additionally, scheme fees have reportedly increased, though the evidence for this conclusion is limited.

The report, which only covers 12 Member States and a restricted sample of respondents, acknowledges that data constraints hindered a comprehensive assessment, as merchants, issuers, and acquirers cited non-disclosure agreements and parallel investigations by the Commission to justify withholding certain information. Card schemes, for their part, attributed the rise in scheme fees to new regulatory requirements and security measures linked to increased market participation.

In the same vein, a report by the European Court of Auditors found that, inter alia, for some interventions linked to card payments the Commission could not demonstrate that the positive effects for consumers clearly outweigh the negative ones due to the absence of comprehensive, reliable, and up-to-date data. This hampers effective monitoring of the impact of price interventions. A potential explanation for the limited availability of data is the non-disclosure agreements of card schemes, which prevent merchants, issuers, and acquirers from sharing data on the charges linked to card payments[66].

Furthermore, the merchant indifference test, which underpinned the IFR, has been criticised for its limitations in assessing the actual benefits of payment methods[67]. The test aimed to determine a level of interchange fees that would leave merchants

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[62] Ardizzi, G. and Savini Zangrandi, M. (2018), 'The Impact of the Interchange Fee Regulation on Merchants: Evidence from Italy', Occasional Paper No 434, Bank of Italy.

[63] De Groen, W.P. (2018), 'The impact of EU price rules: Interchange fee regulation in retail payments', CEPS-ECRI Working Paper, Brussels.

[64] Lunde, A., Kastberg Nielsen, C., Pau, E., De Michiel, F. Ahlqvist, V., and Sahin, S. (2020), 'Study on the application of the Interchange Fee Regulation', European Commission Report, Copenhagen Economics and EY.

[65] Ibid.

[66] European Court of Auditors (2025), 'Digital Payments in the EU', Special Report 01/2025, Luxembourg.

[67] Górka, J. (2014), 'Merchant Indifference Test Application – A Case For Revising Interchange Fee Level in Poland', Deutsche Bundesbank.

indifferent between accepting card payments or cash. However, as electronic payments increasingly replace cash transactions, this approach may not fully capture the evolving dynamics of the market. The European Court of Auditors[68] has pointed out that the test was not rigorously reassessed after its implementation, raising concerns over whether the current fee caps are optimally set.

In April 2019, the Commission accepted commitments from Visa and Mastercard to reduce interchange fees for payments made in the EEA with consumer cards issued outside the region, resulting in an average fee reduction of 40%[69]. This agreement meant to foster fair competition and benefit both merchants and consumers. In July 2024, Visa and Mastercard agreed to extend these fee caps until 2029, reaffirming their commitment to a transparent and competitive payments environment[70].

2.2.2 The surcharging ban and market transparency

Another major regulatory intervention has been the ban on surcharging consumer card transactions and SEPA payments. The ban was introduced under PSD2 to protect consumers by preventing excessive charges and introducing more clarity on final prices. It also intended to simplify cross-border payments by harmonising surcharging practices across Member States. But its impact on competition remains contested.

The surcharge ban reduces price transparency by stopping merchants from passing payment processing costs directly to consumers, reducing their option to incentivise the consumer to use cheaper payment methods. Instead, merchants incorporate these costs into their overall pricing structure, leading to a cross-subsidisation effect, whereby consumers using cost-efficient payment methods indirectly cover the expenses of those opting for more expensive options[71]. The European Court of Auditors has raised concerns that the European Commission did not sufficiently analyse the competitive effects of this ban before its introduction, and there is a lack of empirical evidence to demonstrate that it has provided net benefits for consumers.

A key argument against the surcharge ban is that it limits merchants' ability to influence consumer payment behaviour and foster competition among payment providers. In markets where surcharging is permitted, such as Australia[72], merchants can charge

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[68] European Court of Auditors (2025), 'Digital Payments in the EU', Special Report 01/2025, Luxembourg.

[69] European Commission (2019), 'Antitrust: Commission accepts commitments by Mastercard and Visa to cut inter-regional interchange fees', Press Release, 29 April.

[70] Reuters (2024), 'Visa, Mastercard to extend non-EU card fee caps to 2029, EU says', 5 July.

[71] Bundeskartellamt (German Federal Cartel Office) (2021), 'Contribution to the 2022 review of the Payment Services Directive 2 (PSD2)'

[72] Reserve Bank of Australia (2024),'Review of Retail Payments Regulation', Issues Paper, Sydney, October.

consumers for selecting higher-cost payment methods, thereby incentivising the use of more cost-effective alternatives. The ability to surcharge can also put pressure on PSPs and card schemes to keep fees competitive.

2.2.3 Scheme fees and competition concerns

While interchange fees are regulated, scheme fees charged by international card networks remain largely unregulated and lack transparency. Card providers levy different scheme fees, many of which vary across countries and transaction types. Unlike interchange fees, scheme fees have increased markedly in recent years, leading to concerns that they may be offsetting the intended benefits of the IFR.

European merchants argue that these fees are excessive and should be subject to greater scrutiny, particularly given that they are not covered by the IFR. The UK's Payment Systems Regulator has investigated scheme fees and found that their complexity and opacity hinder effective competition. Similar in-depth assessments have not yet been conducted at the EU level[73].

2.3 STRATEGIC AUTONOMY

A growing number of third-country operators are present in the EU market. Non-European card schemes dominate the card payments landscape and are the only payment solutions that can be used across Europe outside of cash at the POS. Yet, the dependence on foreign players goes beyond that of card schemes. Payments today are heavily reliant on data stored on the cloud and the main providers of these services are mainly non-European. The current geopolitical landscape has raised Commission awareness of the EU's dependency on foreign players for essential services, including payment services. Strategic autonomy has therefore become a priority.

To ensure a well-functioning European payment system, competition is necessary. In that regard, fostering strategic autonomy is not about restricting international providers, but ensuring that the payments landscape in Europe is diverse and resilient. The development of pan-European solutions and/or the expansion of current national-based solutions to cover the entire region would be beneficial for the EU as well, to maintain or enhance its relevance at international level. This would require the development of new infrastructure that facilitates cross-border payments[74].

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[73] Payment Systems Regulator (2024), 'Market review of card scheme and processing fees', Interim Report, MR22/1.2, London.

[74] Eurofi (2022), 'Open strategic autonomy: Implications for finance – Summary of the Eurofi High-Level Seminar', Paris, February.

One of the objectives of both the Eurosystem's and European Commission's retail payments strategies is that 'competitive home-grown and pan-European payment solutions are available at POS, supporting Europe's economic and financial sovereignty'[75]. Since then, several solutions and projects have been brought to the table. First is the public initiative by the ECB of the digital euro project. Second, there are several industry-led initiatives, including the European Retail Payments Framework, EuroPA, and the European Payments Initiative, which seek to tackle the cross-border angle and leverage new instant-transfer standards and infrastructure. We further analyse these solutions in the following sub-sections.

2.3.1 The digital euro (public initiative)

In parallel to technical work undertaken by the Governing Council of the ECB, the European Commission put forward a proposal for a digital euro in 2023. It establishes a legal framework for the digital euro to function as legal tender and gives the ECB power to decide if and when the currency is issued.

One of the main purposes of the digital euro is to help preserve the access to and convenience of using central bank money in the digital age. The contribution of the digital euro towards strategic autonomy would come from how it could help consumers, merchants, and PSPs to access European payment solutions[76].

To generate network effects and gain pan-European acceptance, sufficient incentives and benefits need to be in place for users to adopt the digital euro, merchants to accept it and PSPs to distribute it.

Issuing PSPs would benefit from a pan-European acceptance network with open standards that would enable greater reach and boost competitiveness. Leveraging existing standards in the market is particularly relevant in order to reduce costs. Where standards do not exist or are not available, the ECB could create them and make them available free of charge. Also, the digital euro could be integrated into existing PSP solutions to maintain customer relationships. PSPs would benefit from the lack of scheme and processing fees. A digital euro may improve the bargaining position of issuers vis-à-vis incumbents, such as international card schemes (e.g. Visa and Mastercard) or digital platforms (e.g. Applepay), but what the fair compensation should be for issuers to recoup

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[75] European Commission (2020), 'A Retail Payments Strategy for the EU', Communication, COM(2020) 592 final, 24 September.

[76] European Economic and Social Committee (2023), 'What ways and means for a real strategic autonomy of the EU in the economic field?' Study.

their investment in a digital euro remains to be seen. Non-bank PSPs could enjoy similar benefits, though this depends on the specific licence.

Acquiring PSPs would benefit from settlement and processing fees not being charged by the Eurosystem, which would eliminate major cost blocks. Additionally, the instant availability of funds could serve as an extra source of net interest margin, providing further financial benefits. A digital euro would act as a valuable fallback solution, particularly during card outages, with offline functionality serving as a key selling point to merchants.

Merchants would also stand to gain from the introduction of a digital euro. Establishing a competitive alternative to dominant payment solutions would enhance merchants' bargaining power and lower the cost of payments. The digital euro would also provide enhanced access to consumers. With one solution covering all main payment use cases, the digital euro would simplify operations for merchants while offering instant settlement, thereby minimising liquidity and counterparty risks. Moreover, as mentioned, its offline functionality would serve as a critical fallback solution during card outages.

Consumers would benefit from the introduction of a digital euro, offering a free-for-basic-use payment solution that complements cash. As a legal tender, the digital euro would be available to euro area consumers in all payment scenarios, making it inclusive and accessible. This solution would provide a pan-European payment option with a recognisable and standardised front-end. It would be available in both online and offline versions, respecting user privacy and provide the highest levels of data protection. Also, whether through a card or smartphone, consumers would have access to digital onboarding, making the digital euro a user-friendly payment choice for all.

In order to work, the digital euro needs a regulatory push, consisting of the previously mentioned regulation, which among other things would include mandatory distribution and legal tender status. Furthermore, an enhanced pan-European settlement, building on existing infrastructure such as TIPS for instant payments, would also be necessary. In this case, as with standards, the key is to leverage both the present infrastructure to reduce adaptation costs for operators and the investment already made in instant payment systems, integrating with local options for digital payments. In addition, the digital euro would need to create enough incentives for users to adopt this new payment method (in essence, by enabling PSPs to develop value-added services that are not currently available). The same holds for issuing intermediaries, since without a fair compensation model their likelihood of promoting the digital euro would be much reduced.

Going forward, it is important that different payment solutions can work with and complement each other, with possible infrastructure synergies. Indeed, the objective of the digital euro would not be to become a dominant player with a dominant share of retail payments. Yet, since one of the purposes of the digital euro is to become a digital form of cash, broad adoption and regular use would also be required, without cannibalising current local alternatives. Greater coordination between the European Commission and the ECB on the digital euro (particularly on timelines and strategic priorities) would help provide greater clarity and boost confidence in the payments and banking sector.

2.3.2 Private initiatives

There are several examples of private initiatives – EuroPA, the European Payment Initiative, and the European Retail Payments Framework – striving to offer pan-European payments. All these initiatives seek to meet the ECB's five key objectives for pan-European payments at the point of interaction in the Eurosystem's retail payment strategy.

(i) Ensure a **pan-European reach** by requiring only a digital payment account with support for outgoing SCT Inst, thus eliminating onboarding processes, facilitating interoperability and competition for instant account-based retail payments, and focusing on SCT Inst. They are accessible to all EU consumers across the Member States with online payment accounts. They leverage either instant payments or PSD2 and open banking, with cross-border payments supported by API aggregators.

(ii) Promote **convenience and cost-efficiency**, including by offering frictionless payment flows, easy SCA, and offline capabilities, without the need for additional accounts or wallets. Consumers retain full control over payments while sensitive data remain undisclosed to non-supervised entities. Merchants would benefit from maximum reach, simplified integration, no requirement to handle sensitive data, and reduced fraud risks.

(iii) Seek **safety and security** by being fully compliant with PSD2 and Regulatory Technical Standards. They employ SCA and enable a unified EU ID system. Privacy is prioritised by design, using end-to-end encryption and electronic signatures, eliminating the need for proprietary tokenisation. They are designed to minimise fraud by not storing sensitive payer data.

(iv) Emphasise **European identity and governance.** They aim to establish a robust legal framework with regulated access, requiring payment providers to be licenced and

supervised. Unified standards are developed and they leverage clearing and settlement mechanisms.

(v) Aim at **global acceptance** as a long-term goal by enabling merchants worldwide to use them via supported collecting commerce PSPs. The objective is to make online and POS scenario fully available.

Another initiative trying to achieve the Eurosystem's objective of a pan-European payment solution is the European Payments Initiative. It was launched by 16 European banks and financial service providers to offer a new payment solution: Wero. As a digital wallet, Wero is taking a first step in streamlining P2P payment transfers, with future possible use for online and mobile transactions and at the POS. The European Payments Initiative utilises the instant account-to account infrastructure for payment and allows payments through QR codes or contact lists. Other features will be rolled out later. Wero was launched in 2024 in Germany, France and Belgium, and will progressively expand to the rest of Europe.

On a more regional level, EuroPA, as a forum for cooperation between Italian Bancomat, Portuguese MB Way, and Spanish Bizum, is advancing interoperability, allowing for P2P payment transfers between them. This initiative seeks to align with the priorities of the Eurosystem, to foster pan-European payment solutions and instant payments. It fulfils numerous other objectives as it builds upon their current payment applications, which offer convenient and cost-effective payments. Consumers are able to continue using their current payment applications, so they remain familiar with how the payment is executed. This aspect is also relevant for consumer safety: as they use the same app, they are more likely to perceive suspicious activities. All three apps are compliant with today's regulatory frameworks. Italy, Portugal and Spain are merely the first participating countries in EuroPA, with the goal to continually expand coverage to become pan-European, while also extending to new payment use cases such as peer to merchant for both online and in-store purchases.

Finally, the European Third Party Providers Association is sponsoring the European Retail Payments Framework. It aims to enable retail payments based on open banking across the EU at any point of interaction. By building solely on existing frameworks and standards, it eliminates the need for additional schemes or governance and minimises time-to-market, as well as investment and costs relying on the expenditures already made to make EU payment accounts accessible under PSD2.

3 DIGITALISATION, INNOVATION, AND DATA: THE RADICAL TRANSFORMATION OF EU PAYMENTS

Summary

- In digital payments, access to technologies such as NFC and Secure Elements plays a crucial role in enabling contactless transactions that are seamless. When access to these technologies is restricted, barriers to competition emerge, limiting the ability of alternative digital wallets to offer comparable services. DG COMP conducted an antitrust investigation, resulting in legally binding commitments from Apple to enable third-party access to NFC payments for users in the EEA. While the Digital Markets Act and DG COMP decisions represent progress, further steps may be needed to ensure a competitive and open landscape for digital payments.
- Payment processing services must comply with numerous regulations, such as PSD2 and the General Data Protection Regulation (GDPR), as well as with standards that are initially voluntary, but once adopted by participants, become binding contractual obligations. If applied in a restrictive manner, mandatory requirements risk slowing the pace of innovation and creating challenges for new and emerging payment solutions. To foster innovation and reduce operational barriers, an alternative could be to consider developing and implementing new standards that encourage the uptake of new payment technologies.
- SCA takes a one-size-fits-all approach. Although well intentioned, the current authentication methods have some limitations. A risk-based, digitally-forward approach to authenticating transactions that focuses in outcomes is needed to combat threats.
- The PSR introduces a new type of liability for PSPs, whereby a consumer who is a victim of impersonation fraud will be entitled to full reimbursement from their PSP of the amount paid, provided that they report the fraud without undue delay to the police and notify their PSP. If implemented, the Commission's proposal would expose PSPs to potentially significant liability, triggering substantial investment. The challenge is to strike the right balance – to ensure that regulatory and security requirements do not stifle innovation, but rather encourage the development of new, efficient, and secure payment solutions.

- In current legislative proposals, it is essential that co-legislators and the ECB clearly outline the interplay between the digital euro and other payment initiatives to ensure their complementary development and implementation. As for adopted regulations, it does not seem warranted to expand the high-risk use cases under the AI Regulation to cover payments. As for crypto-assets, before advancing to MiCA 2.0, it is advisable to advocate for the establishment of international standards rather than proceeding solely at the EU level.

The payments landscape in the EU is going through a period of unparalleled transformation, driven by a confluence of factors: rapid technological advancements, evolving consumer behaviour, geopolitical uncertainties, and a proactive regulatory approach[77]. This dynamic environment presents both challenges and opportunities for established players and new entrants alike. As the World Bank aptly observed in 2022, 'payments are probably the financial activity most affected by innovation, undergoing radical changes from various perspectives'[78].

In the EU, payments are undergoing profound changes, notably due to digitalisation[79]. Payment operators across the EU are finding themselves at the centre of several trends that are changing the overall environment around them. These are providing new opportunities for incumbents and disruptors to win customers, develop new solutions, and claim a market share of the global payment system[80]. These developments also call for a re-evaluation of the resilience of Europe's payment systems vis-à-vis a variety of possible threats and disruptions.

- **Consumer demand for digital options.** Consumers are increasingly embracing digital wallets, mobile payment apps, and other digital payment methods for their convenience, speed, and security. The shift towards digital payments is accelerating, fuelled by the deeper penetration of smartphones, the rise of e-commerce, and the growing preference for contactless and mobile payments (e.g. the phone number is becoming an enabler of account-to-account payments). This

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[77] Danzer, V., Hartmann, C., and Scherzo, S. (2024), 'Trends to watch: The future of European retail payments', Roland Berger, 5 November.

[78] World Bank Group (2022), 'Innovation in Payments: Opportunities and Challenges for EMDEs', Washington, D.C.

[79] Papsforf, P. and Themejian, K. (2024), 'The Eurosystem policy response to developments in retail payments, ECB Economic Bulletin, No 1/2024.

[80] Reuters (2023), 'Transform Payments Europe 2023', Reuters Events, London, 28 November.

trend is evident in the significant growth of digital payments for retail sales in the EU, as reflected in Section 1.

- **Technological innovation.** Innovations are upending established norms and spurring competition in the payments sector. All market participants are taking advantage of new technologies and business models in different ways to offer more personalised, efficient, and customer-centric methods of payment, often building on the infrastructure provided by traditional financial players like banks and central banks. Both incumbent and new market players are disrupting traditional payment models and introducing novel ones, such as digital wallets and new account-to-account payment products and embedded finance.

- **Data analytics and machine learning.** The growing importance of data is driving innovation in areas such as personalised payment experiences, risk management, and fraud prevention. With consumer consent, payment providers can use data analytics and machine learning to gain valuable insights into customer behaviour, identify trends, and develop tailored solutions. Data sharing between market players, when conducted in a secure and compliant manner, can further enhance these benefits by encouraging collaboration, improving interoperability, and forming more comprehensive fraud detection systems. However, such data sharing must navigate complex challenges, including competition concerns, data protection regulations, and the need for robust governance frameworks. Equally, using broad data sets (global data sets, ideally) to perform risk analytics is crucial to identifying risks and vulnerabilities across payment networks.

- **Regulation.** The EU has proposed and implemented several initiatives aimed at fostering a more competitive, secure, and consumer-centric payments market. These initiatives include PSD2, the GDPR, the Instant Payments Regulation, the Digital Markets Act, the anti-money laundering package, the Digital Operational Resilience Act (DORA) and the EU Digital Identity wallet. More initiatives are being discussed, such as PSD3/PSR, FIDA and the digital euro, and a legislative proposal accompanying the work conducted by the ECB, while a review of the Cross-Border Payments Regulation is imminent. The EU's regulatory framework is playing a crucial role in shaping the payments landscape, promoting innovation and competition, and protecting consumers.

This section discusses some barriers to innovation, such as Apple's NFC restrictions, unnecessary constraints stemming from mandatory standards, and increased costs for PSPs due to regulatory changes, explaining how they can hinder industry progress. The discussion covers the limitations of traditional and inflexible authentication methods. It delves into the potential implications of the European Commission's proposals on

PSD3/PSR and FIDA for data usage and innovation as well as those of the Instant Payments Regulation. Finally, it calls for avoiding new regulatory proposals in the AI and crypto domains until the industry has had enough time to implement current legislation and there is more clarity on how other major jurisdictions will legislate in these areas.

3.1 BARRIERS TO INNOVATION

3.1.1 Access to technologies

The control that major technology platforms exert over key infrastructure can significantly shape competition, innovation, and consumer choice[81]. In digital payments, access to technologies such as NFC and Secure Elements plays a crucial role in enabling contactless transactions that are seamless[82]. When access to these technologies is restricted, barriers to competition emerge, limiting the ability of alternative digital wallets to offer comparable services.

A notable example is Apple's approach to NFC access on iOS devices. By restricting third-party developers from using NFC for contactless payments, Apple has created significant barriers for competing digital wallets[83]. This has led to regulatory scrutiny, with both the European Commission and US authorities taking action. Under the EU's Digital Markets Act, Apple is required to allow alternative payment solutions and provide fair access to NFC. But its implementation – particularly the introduction of new contractual terms and fees – has been criticised, with concerns that these measures may not fully comply with the objectives of the Digital Markets Act[84]. Additionally, DG COMP conducted an antitrust investigation that resulted in legally binding commitments from Apple to grant third-party access to NFC payments for users in the EEA.

Apple defends its approach on security and privacy grounds, arguing that its restrictions protect user data and prevent fraud[85]. Critics argue that these restrictions help preserve its market dominance and limit competition, particularly in contrast to other technology firms that offer more open NFC access and different fee structures.

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[81] Scott Morton, F. and Dinielli, D. (2020), 'A Roadmap for a Monopolization Case against Google Regarding the Search Market', Omidyar Network.

[82] Consumer Financial Protection Bureau (2022), 'Big Tech's Role in Contactless Payments: Analysis of Mobile Device Operating Systems and Tap-to-Pay Practices', Washington, D.C.

[83] European Commission (2024), 'Antitrust: Commission accepts commitments by Apple to allow access to NFC for mobile payments', Press Release, 11 July.

[84] MacCarthy, M. (2024), 'Overseeing app stores to promote competition in the Digital Markets Act, Brookings Institution', Washington, D.C.

[85] Apple Inc. (2024), 'Developers can soon offer in-app NFC transactions using the Secure Element', 14 August .

While the Digital Markets Act and DG COMP decisions represent progress, further steps may be needed to ensure a competitive and open market for digital payments. Balancing security, competition, and innovation remains key as digital payments continue to evolve. A flexible and proportionate approach – grounded in market realities – can help promote a more open ecosystem while respecting the legitimate concerns of platform operators.

3.1.2 The role of standards

The payments ecosystem is continually evolving, propelled by technological advancements and changing consumer expectations. In this dynamic environment, certain strategies can greatly affect the trajectory of innovation, digitalisation, and data utilisation.

Regulations and standards set specific requirements that businesses must meet, ensuring data security, consumer protection, and the integrity of the payments ecosystem. Thus, payment processing services must comply with numerous regulations such as PSD2 and the GDPR, as well as with standards including the Payment Card Industry Data Security Standard.

Furthermore, regulatory bodies like the Financial Action Task Force and EU institutions like the ECB play a crucial role in shaping the payments industry by setting standards, enforcing compliance, and safeguarding a secure and stable financial ecosystem[86]. These organisations influence the development and implementation of mandatory standards, aiming to balance innovation with security and consumer protection.

In addition to the regulations mentioned above, mandatory standards also encompass security measures for payment instrument providers. These measures include adopting new messaging standards and upholding data security to protect sensitive payment data[87]. These security requirements are crucial for maintaining consumer trust and assuring the integrity of the payments ecosystem.

Some standards, such as those imposed by card schemes, are initially voluntary, but once adopted by participants, they become binding contractual obligations. Non-compliance with these standards can have significant financial implications for businesses. In particular, card schemes can impose penalties on entities that fail to comply with their rules, further highlighting the importance of compliance. This underscores the need to adhere to mandatory standards and the potential costs associated with non-compliance.

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[86] Stripe (2023), 'Payment industry ecosystem: A guide for businesses', June.

[87] PwC India (2020), 'Payments regulations: Understanding the global state of play', July.

While mandatory standards are designed to boost efficiency through standardisation, enhance security, protect consumers, and retain their trust, their implementation by certain market players may (un)intentionally create barriers to competition. Indeed, some market players apply mandatory standards in a way that limits the extent to which other wallets or payment methods are used or presented to a customer or merchant in the checkout journey[88]. This can manifest in various ways, including exclusivity agreements, a limited display of alternatives, and technical obstacles.

Merchants may enter into agreements that restrict them to accepting payments solely through specific wallets or payment processors, thereby excluding other options. These agreements can be motivated by various factors, such as securing lower transaction fees or receiving preferential treatment from the chosen provider. However, such exclusivity can stifle competition and narrow consumer choice.

Even when alternative payment methods are technically accepted, merchants may structure their checkout process in ways that naturally promote certain payment options over others, reflecting their economic incentives and cost considerations. These may include displaying preferred payment options more prominently or requiring additional steps to access alternatives.

While these practices are a legitimate expression of merchants' freedom to design their customer experience and cut costs, they may also sway consumer behaviour in ways that restrict effective choice. Consumers are not always informed that they have a choice between payment options or know how to exercise that choice when paying at a merchant checkout. This lack of transparency can reduce competition between payment providers, limiting their incentives to offer users the best or most valuable payment propositions. Striking a balance between merchants' ability to manage their payment preferences and providing consumers with transparent and meaningful access to different payment methods remains a crucial consideration in furthering both competition and efficiency in the payments ecosystem.

When applied in a restrictive manner, mandatory requirements risk slowing the pace of innovation and creating problems for new and emerging payment solutions. While a competitive market stimulates innovation, limiting the availability and visibility of alternative payment methods can affect the speed and scope of adopting novel technologies. At the same time, there is a need to weigh innovation with consumer protection and to make sure that regulatory frameworks support both competition and

[88] OECD (2013), 'Competition and Payment Systems', Series Roundtables on Competition No 136, Paris; World Bank (2021), 'Interoperability in Fast Payment Systems', Focus Note, Washington, D.C.; Financial Stability Board (2023), 'Stocktake of International Data Standards Relevant to Cross-Border Payments', Basilea.

security. Harmonising global standards could play a key role in facilitating cross-border payments while maintaining an environment where innovation can thrive within a secure and efficient financial system.

To encourage innovation and reduce operational barriers, one alternative would be to consider developing and implementing new standards that boost the uptake of emerging payment technologies. For instance, advancing standards for technologies such as NFC, Bluetooth, and offline communication could support the seamless deployment of diverse payment methods, facilitating their access and providing greater flexibility and inclusivity for consumers and merchants. These standards would promote not only innovation but also a more consistent and user-friendly experience across platforms. As the payments ecosystem continues to evolve, cooperation among regulators, industry stakeholders, and technology providers is essential to develop such harmonised standards, so that innovation thrives while preserving security and consumer trust. The ERPB is an example of such collaboration.

3.1.3 Balancing security and innovation: The challenge of rigid authentication standards

Traditional authentication methods, such as passwords and PINs, are increasingly vulnerable in the face of sophisticated cyberattacks. Reliance on static credentials alone is no longer sufficient to guarantee the security of online transactions[89], nor is it allowed in the EU where SCA is the norm, as mandated by PSD2.

SCA follows a one-size-fits-all approach. Although well intentioned, the current authentication methods do have some limitations.

- **Vulnerability to attacks.** Passwords can easily be compromised through phishing, social engineering, and data breaches. Even two-factor authentication can be bypassed by man-in-the-middle or Trojan attacks[90].
- **Friction in the user experience.** SCA often requires multiple steps for authentication, which can be cumbersome for users, especially on mobile devices. This can lead to increased abandonment rates and a negative impact on customer satisfaction. This prompted fears, particularly on the eve of its introduction, of a

[89] Giesecke+Devrient (2024), 'Beyond passwords: The future of authentication', Munich.

[90] ICI Mutual (2015), 'Shareholder Authentication: Limitations of authentication measures generally', Washington, D.C.

'cardmageddon' leading to card abandonment and frustration[91]. Recent data, however, show the effectiveness of SCA against some forms of fraud[92].

- **Inflexibility in the face of new technologies.** The prescriptive nature of SCA rules can make it difficult to integrate new authentication technologies, such as behavioural biometrics or secure payment confirmation[93]. This can slow down innovation and limit the potential for more secure and user-friendly solutions.

- **Limited effectiveness against evolving fraud tactics.** Traditional methods struggle to keep up with emerging fraud techniques like synthetic identity fraud, where criminals combine real and fabricated information to create new identities.

Combating threats calls for a risk-based, digitally-forward and outcome-oriented approach to the authentication of transactions, notably through the recognition of behavioural biometrics, and transaction risk analysis with flexibility on the use of aspects/categories. SCA requirements should be dynamic and adaptable to technological developments, underpinning both security and a seamless user experience. Rather than prescribing rigid implementation methods, a more flexible approach can help mitigate emerging risks and prevent fraudsters from exploiting standardised frameworks.

3.1.4 Increased liability for payment service providers

The PSR introduces a new type of liability for PSPs under Article 59, according to which a consumer who is a victim of impersonation fraud will be entitled to a full reimbursement from their PSP of the amount paid, provided that they report the fraud without undue delay to the police and notify their PSP. If implemented, the Commission's proposal on PSD3/PSR, which includes other obligations and responsibilities for PSPs in fraud cases, would expose PSPs to potentially significant liability, with a direct impact on their costs, capital requirements, and business models.

This would lead to increased costs for PSPs, which would need to invest in new technologies, processes, and insurance policies to manage the higher liability risk. Yet while this investment may impose short-term financial and operational burdens, it also has the potential to increase market stability and consumer trust, ultimately fostering a more resilient and competitive payments ecosystem. The challenge lies in striking the right balance – so that regulatory and security requirements do not stifle innovation but

[91] Goode Intelligence and Biocatch (2022), 'Beyond compliance: Comply and thrive in a PSD2 world', White Paper.

[92] EBA and ECB (2024), '2024 Report on Payment Fraud', Île-de-France and Frankfurt.

[93] Checkout.com (2023), 'The future of authentication in payments', 13 November.

rather encourage the development of new, efficient, and secure payment solutions. This could include:

- **enhanced security measures,** such as stronger cybersecurity protocols, data encryption, and fraud prevention systems to minimise the risk of data breaches and payment fraud;
- **improved operational resilience,** by investing in redundant systems, disaster recovery plans, and robust incident-response mechanisms for assuring continuity of service and minimal downtime in the event of disruptions;
- **legal and compliance costs** for engaging legal experts to review and update contracts, ensure compliance with new regulations, and manage potential legal disputes.

PSPs may need to revise their existing business models and contracts to accommodate the new liability provisions, involving:

- **a re-evaluation of outsourcing arrangements** by carefully assessing the risks and liabilities associated with outsourcing critical, payment-related functions to PSPs and potentially renegotiating contracts to allocate responsibilities more clearly;
- **the development of new services** that address the increased liability concerns, such as augmented security features or insurance products to cover potential losses;
- **adjustments of pricing strategies** to reflect the higher costs associated with managing greater liability.

The added costs incurred by PSPs could be passed on to consumers in the form of higher prices for payment services[94]. This could have several consequences:

- **reduced affordability,** as higher prices could make payment services less affordable for some consumers, potentially leading to a digital divide and excluding certain segments of the population from accessing essential services;
- **slower innovation,** as increased costs and regulatory burdens could discourage innovation in new payment technologies and services, potentially hampering the development and adoption of more efficient and convenient payment solutions;

[94] Federal Employee's Retirement Planning (2019), 'TSP Investors – changes coming your way', 8 February.

- **limited consumer choice,** as PSPs may be less willing to offer a wide range of payment options or partner with new and innovative PSPs due to the increased liability risks, potentially reducing consumer choice and competition in the market.

Moreover, the Commission's proposal introduces a prescriptive approach, mandating the EBA to develop regulatory technical standards for outsourcing agreements between technical service providers and PSPs. This would take place in a context where technical service providers already fall under the supervision of DORA and the ECB's framework for payment instruments, schemes and arrangements (PISA). The Payment Services Regulation, DORA, and PISA framework are all interconnected and collectively contribute to a more secure and resilient financial ecosystem. However, this interconnectedness also creates a complex regulatory landscape for technical service providers to navigate. They must comply with the requirements of all three regulations, which can involve significant investment in technology, processes, and compliance measures. Against this background, an additional layer of regulation with the EBA's regulatory technical standards for outsourcing agreements, when technical service providers are already captured under DORA, could lead to excessive regulatory complexity.

3.2 HOW TO ENSURE A VIBRANT REGULATORY LANDSCAPE THAT MAXIMISES INNOVATION

The previous section outlined several barriers to innovation in payments, ranging from restricted access to key technologies to rigid regulatory mandates and liability concerns for PSPs. While these challenges have shaped the competitive landscape, they also raise a broader question: how can regulation foster innovation without imposing unnecessary constraints? A well-calibrated regulatory framework is essential for the EU's payments ecosystem to remain competitive, adaptable, and capable of supporting new market entrants and technological advancements.

Building on these considerations, this section explores key regulatory initiatives that will define the future of payments in Europe. While these frameworks aim to step up competition, data access, and interoperability, their effectiveness will depend on how they balance innovation with security and market stability.

The PSD2 supported new means of payment by regulating the access of third-party providers to payment accounts and payment initiation services (i.e. open banking). Although open banking is progressively gaining traction, the European Commission is of the view that it has a long way to go before it reaches its full potential, with the PSD3 and PSR proposals aiming to address some of the issues identified. All the same, many regulatory frameworks have been drafted with a strong focus on card-based payment

systems, often neglecting account-based cases[95]. This legacy approach has inadvertently created barriers to the development of new payment solutions, as regulations may not adequately account for innovations such as digital wallets, QR code-based payments, or emerging payment technologies. Addressing these limitations in PSD3 and PSR will be essential to a regulatory environment that truly supports a diverse and innovative payments ecosystem.

The European Commission has not limited itself to proposing improvements to open banking. It has gone a step further by proposing a new regulation, FIDA (on financial data access), whose approval would legally establish such access, commonly referred to as open finance. Still, some amendments to the Commission's proposal are warranted to ensure its proper workability and consistency with open banking.

The EU institutions are also working on a digital euro, with a legislative proposal on the matter having been tabled by the European Commission. While the digital euro has the potential to become a secure, innovative pan-European means of payment that contributes to the EU's strategic autonomy, it is essential that co-legislators and the ECB clearly outline the interplay between the digital euro and other payment initiatives for their complementary development and implementation.

The adopted Instant Payments Regulation is also worth mentioning. On 9 January 2025, the first part of the Instant Payments Regulation became applicable, requiring eurozone-based PSPs other than e-money or payment institutions to be able to receive euro instant credit transfers, with a similar requirement for sending them scheduled for October 2025.

In its current form, the AI Act does not include any use case linked to payments as high risk. This means that the application of AI solutions to the payments field will be easier. Thus, before moving to any possible expansion of the use cases deemed high risk, there is a clear need to wait and see how the industry evolves and what regulatory developments take place in other jurisdictions. Something similar could be said about the MiCA Regulation.

For a vibrant regulatory background that maximises data usage and innovation, some policy initiatives should be seriously considered – including revising legacy rules that constrain emerging payment technologies, fostering interoperability, and aligning with global standards.

[95] Committee on Payments and Market Infrastructures (2016), 'Payment aspects of financial inclusion', Bank for International Settlements, Basel.

3.2.1 Payment Services Directive 3 and the Payment Services Regulation

With the recent adoption of the Instant Payments Regulation and the rise of payment methods using account-based instruments, PSD3/PSR must level the playing field between account-to-account and card-based instruments. In its opinion on PSD3/PSR, the ECB[96] also alluded to unequal footing and called on co-legislators to make the necessary 'modifications to the proposed regulation, to make sure that its requirements also apply to payment instruments other than cards, in line with the evolution in payment methods'. For example, given the existing legislation, it is not possible to support variable recurring payments on credit transfers with a similar user experience to cards.

Another important aspect that should be considered is how to finetune the interactions between open banking as reflected in PSD3/PSR, and open finance as proposed in FIDA. As discussed before, it is inconsistent to envisage a compensation model for open finance under FIDA, while in the past this has been left to the market, leading to the creation of the SPAA scheme. Furthermore, permission dashboards should be unified across FIDA, PSR, and PSD3. This would streamline processes and improve user experience. These structures should also align with the GDPR and Data Governance Act. Such alignment would increase the consistency of regulatory standards, simplify compliance for financial institutions, and enhance data protection and governance across the board.

3.2.2 Financial Data Access Regulation

The draft FIDA regulation defines the concept of open finance. This proposal would enable third-party access and data sharing for a wide range of financial services, going well beyond the concept of open banking under PSD2. Thus, its aim is to foster innovation and the development of more targeted and personalised financial products by enabling greater data sharing.

To achieve these objectives and avoid ambiguity, it is essential to clearly establish the data covered by FIDA[97]. The data should be raw and unprocessed to avoid potential bias. This approach would help assure that data analysis remains objective and accurate, for better decision-making and innovation in financial services.

Equally, FIDA should seek to provide a clear and unambiguous definition of financial information service providers (FISPs). This clarity would help identify which entities fall

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[96] ECB (2024), 'Opinion of the European Central Bank of 30 April 2024' on a proposed regulation and directive on payment and electronic money services (con/2024/13), OJ C/2024/3869, 19.6.2024.

[97] Arnal, J. and Andersson, F. (2023), 'FIDA: Is the EU prepared to move from Open Banking to Open Finance?', CEPS and ECRI, Brussels.

under this category and make certain that the regulatory framework is applied consistently and comprehensively across all relevant stakeholders.

FIDA should avoid imposing potentially burdensome obligations on the interaction between data holders and data users for real-time access. Over-stringent requirements could compromise the quality of the data transmitted and pose sustainability challenges for smaller operators if appropriate compensation mechanisms are not in place. Hence, a one-size-fits-all approach to compensation should also be avoided. Instead, compensation should be business-led and left to the market so that it can be tailored to the specific needs and capabilities of different operators for a fair and sustainable framework. As indicated under PSD3/PSR, permission dashboards should be unified across FIDA, PSR, and PSD3 to streamline processes and improve user experience and consistency with the GDPR and Data Governance Act should also be ensured..

Finally, the different actors (i.e. banks, traditional payment firms, FISPs, and crypto firms, among others) will need to cooperate in a fair and competitive manner. This will probably require specific provisions embedded in legal texts and the development of technical and scheme standards, as well as appropriate supervision, so that firms do not engage in anti-competitive conduct vis-à-vis other forms of payments.

3.2.3 Instant payments

Given that the development of instant payments varies significantly across Member States, different strategies are needed for each country. Member States with advanced instant payment systems may focus on improving existing infrastructure and integrating new technologies, while those with less developed systems should prioritise foundational improvements and capacity building. Interoperability between payment systems is also crucial to reducing market fragmentation, encouraging less developed countries to join these initiatives, and easing the potential adoption of the digital euro within existing European solutions.

The implementation of the Instant Payments Regulation should put an emphasis on promoting intra-EU cross-border payments in euro following the European Commission's declared objective of supporting instant payments to stimulate home-grown, competitive European solutions. The surge of several cross-border initiatives leveraging instant payments is thus a welcome development. Nonetheless, further work could be done to overcome barriers to their uptake, such as the already mentioned revisions of legacy legislations that don't consider account-to-account payment solutions. Likewise, more collaboration is needed between market players in developing standards that facilitate the deployment of instant payment use cases, such as NFC. The European Payment

Council has already been working in this direction with the development of a QR code standard in a multi stakeholder context following invitation by the ERPB.

A key provision in the Instant Payments Regulation involves amending the Settlement Finality Directive to increase competition. This change allows non-bank payment institutions and electronic money institutions to directly access payment systems established by Central Banks. This inclusion is significant as it levels the playing field and expands market access for new actors. By enabling more participants in the settlement process, the regulation aims to spur innovation and competition within the financial sector.

Finally, further reflection is needed on how various payment initiatives can complement each other, particularly instant payments and the digital euro. Understanding the interplay between these initiatives will help to shape a cohesive and integrated payments landscape. By considering how instant payments and the digital euro can work together, policymakers can verify that each initiative supports and improves the overall efficiency and effectiveness of the European payment system. In that regard, the ECB has started a dedicated workstream to assess how the digital euro would fit in the payment ecosystem, assessing different characteristics of it (e.g., revenues, costs, business model).

3.2.4 AI in payments

The use of AI can enhance efficiency, security, and the customer experience in payments. AI models are already being implemented for fraud detection and cybersecurity. In that regard, AI can analyse vast amounts of transaction data in real-time to identify unusual patterns or behaviours that might indicate fraudulent activity. Machine learning models can continuously improve by learning from new fraud techniques and detecting anomalies much faster than traditional systems. Equally, AI can streamline transaction processing with automation and be used to personalise payment experiences.

The AI Regulation follows a risk-based approach, classifying AI systems into four different categories: (i) unacceptable risk (e.g. social scoring systems), (ii) high risk (e.g. systems used in critical infrastructure), (iii) limited risk (e.g. chatbots), and (iv) minimal or no risk (e.g. spam filters).

The AI Act outlines two high-risk use cases for the financial sector:

- AI systems intended for use to evaluate the creditworthiness of natural persons or establish their credit score, with the exception of those AI systems used for the purpose of detecting financial fraud;

- AI systems intended for use in risk assessment and pricing in relation to natural persons in the case of life and health insurance.

While the two high-risk use cases above will be subject to increased regulatory scrutiny under the AI Act, most AI use cases in the payments field would not be considered to pose a significant risk of harm to the health, safety or fundamental rights of natural persons. Since the payments industry is already covered under the AI Act and existing provisions elaborate a comprehensive regulatory framework, additional sector-specific rules would be unnecessary.

3.2.5 Market in Crypto-Assets Regulation

The MiCA Regulation has successfully created a single market for cryptocurrencies in the EU, providing business certainty and fostering growth in the crypto sector, although its use for payment purposes is still extremely limited. However, before advancing to MiCA 2.0, it is advisable to advocate for the establishment of international standards rather than proceeding solely at the EU level, i.e. the European Commission should actively push the 'Brussels effect'. Promoting global standards will facilitate broader market integration, increase regulatory consistency, and support the development of a more robust and interconnected global crypto market.

At the same time, the EU's approach to digital currencies will inevitably be shaped by regulatory developments in major jurisdictions, particularly the US, whose stance on crypto remains highly uncertain and could shift markedly depending on political dynamics. In that regard, the Trump administration has recently announced a ban on the issuance of Central Bank Digital Currencies (CBDCs)[98] and the establishment of a Strategic Bitcoin Reserve and a US Digital Asset Stockpile[99]. Given this unpredictability, the EU should focus on setting clear and stable regulatory principles while remaining adaptable to external developments, so that its leadership in global standard-setting is not undermined by regulatory volatility elsewhere.

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[98] The White House (2025), 'Strengthening American leadership in digital financial technology', Presidential Action, Washington, D.C.

[99] The White House (2025), 'Establishment of the Strategic Bitcoin Reserve and United States Digital Asset Stockpile', Presidential Action, Washington, D.C.

4 CONSUMER PROTECTION, FRAUD PREVENTION AND DATA SHARING

Summary

- While credit transfers accounted for the largest total amount of fraud, the rate of credit transfers with identified fraud was at 0.001% of all transfer transactions in terms of value for the first half of 2023. This makes it the safest payment method for consumers, followed by direct debits (0.002% of transactions) and cash withdrawals (0.008% of transactions). Cross-border payments are much more vulnerable to fraudulent activity than domestic ones. The problem of recovering funds is exacerbated by instant payments, as the transfer of funds is completed within a few seconds.
- Changes in the payments landscape and consumer habits have led to the emergence of new forms of fraud. Social engineering and phishing attempts are among the main kinds of fraud on the rise. A growing type of digital payment fraud is the compromise of the enrolment process. Other new fraud techniques include malware attacks, SEO poisoning, advanced persistent threats or the use of botnets.
- While PSD2 continues to protect consumers, the legislation is becoming outdated, and no longer always able to address the latest fraudster tactics. Because of their flexibility and adaptability, fraudsters have developed innovative ways to circumvent current regulation. The proposed PSR and PSD3 aim to tackle these issues by providing more clarity on SCA requirements and on the application of exemptions.
- Nevertheless, the new proposed regulation is not perfect, and some amendments are warranted. Instead of placing all the responsibility on banks, as proposed, the obligations to prevent and mitigate fraud should be shared more equitably by adopting a society-wide approach, with all market players cooperating to prevent fraud.
- As for the SCA, the following principles should be considered: (i) respect for the principle of technological neutrality, (ii) flexibility by allowing the use of two factors from the same category, (iii) legal clarity on what constitutes delegated or outsourced SCA, (iv) a harmonised approach to SCA exemptions during technical outages, (v) flexibility to promote tokenisation, and (vi) a more user-friendly SCA.

- The IBAN name check under the Instant Payments Regulation is a new safeguard against fraud. Another initiative that can help combat fraud is the creation of an electronic identification (eID) system, through which users can electronically identify themselves for digital transfers, among other things. Still, the effects of ID wallet protection may fall short as users are vulnerable to evolving fraud methods, with fraudsters becoming increasingly sophisticated in using social engineering techniques that manipulate the payer into authenticating payments.

According to the latest data published jointly by the ECB and the EBA, fraud in payments amounted to EUR 4.3 billion in 2022 and reached EUR 2 billion for the first half of 2023[100]. The transformation undergone in the payments landscape and in consumer habits has led to the emergence of new types of fraud[101]. While PSD2 continues to protect consumers, the legislation is becoming outdated and no longer always able to address the latest fraudster tactics[102].

Although it is impossible to be completely ahead of their newest methods, regulators have the responsibility to limit the gap as much as possible through legislation. Furthermore, the cooperation of all stakeholders in the payment process is essential, including those players out of the PSD2 scope but involved in a payment. Through building robust systems and supporting the development of new tools that protect consumers, stakeholders can create a more resilient payments ecosystem that effectively disrupts fraudulent activities and protects consumers.

A problem brought by the rise of digital transactions is that at present, enhanced safety means more friction in the user experience. There are numerous payment verification methods and the process looks different among providers. This not only makes it complicated for consumers to get familiar with what a 'normal' and 'safe' payment interface looks like, it also puts a stick in the wheels of banks that are putting greater effort into the training of their customers. Today, the confirmation process goes from a simple scan of a QR code to confirm a payment transfer to the reception of text messages with confirmation codes. For certain transactions it might also be necessary to go through the verification process multiple times, provoking confusion and making it unclear of

[100] EBA and ECB (2024), '2024 Report on Payment Fraud', Île-de-France and Frankfurt.

[101] EBA (2024), 'EBA Opinion on new types of payment fraud and possible mitigates', EBA-Op/2024/01, 29 April.

[102] European Commission (2023), 'Payment service: Revised rules to improve consumer protection and competition in electronic payments', Questions and Answers, 28 June.

whether the additional step is due to a decline/scam warning or if it is an extra layer of security.

The situation on fraud is increasingly worrisome because of the emergence of new types of fraud. Manipulation of the payee, mixed social engineering, and technical scams or compromise of the enrolment process, explained in further detail later in this section, are just some examples of how fraudsters have managed to adapt to a new environment for payments. As their techniques evolve in response to a changing payments landscape, innovative solutions by market players to protect consumers become ever more important.

This raises numerous questions about what can be done to protect consumers from fraud. Current legislation is no longer sufficient as it fails to protect all consumers, a significant proportion of whom face substantial financial losses caused by fraudulent activity. Payments are based on trust and customers will not trust PSPs or other payments institutions that allow fraudulent transactions to be processed. A customer falling victim to fraud is more likely to change banks or PSPs. Fraud is complex and doesn't always start in the financial sector, as fraudsters are in many cases active in other areas. It is therefore essential for all market players to contribute to the fight against fraud. In addition, further regulatory alignment and complementarity is necessary to avoid loopholes that could allow fraudsters to profit from vulnerable consumers.

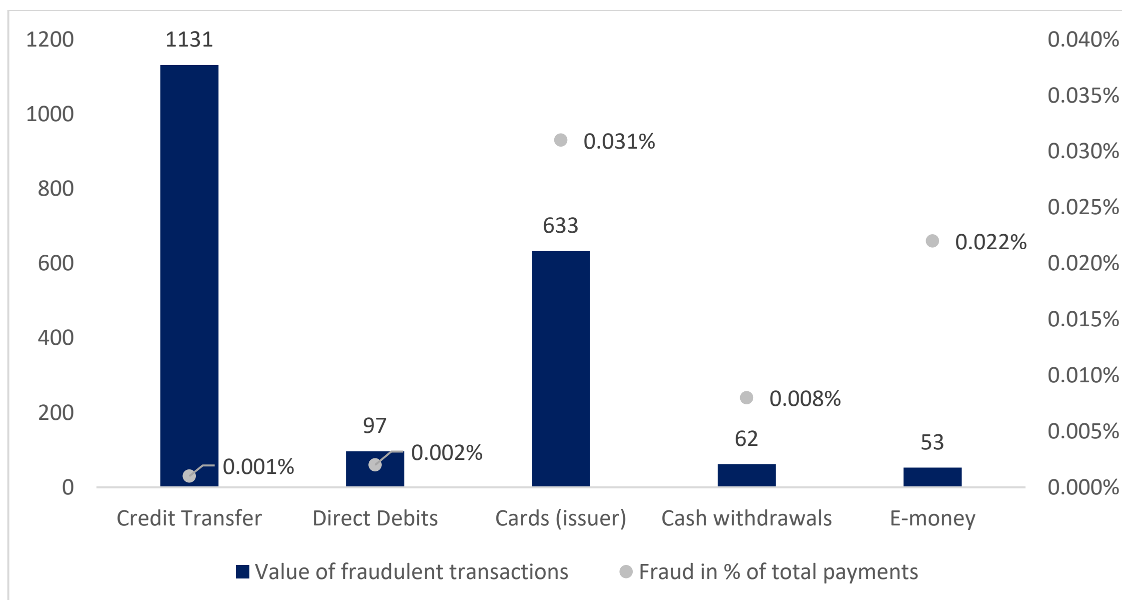
4.1 FRAUD RATES IN THE EU

Article 96 of PSD2 outlines the reporting procedure that PSPs have to follow when they identify fraud in one of their transactions. This helps regulators to better understand, monitor, and track fraud rates in all Member States.

As shown in Figure 9, the highest value of fraud is found in credit transfers and card payments. In credit transfers, the value of fraud totalled more than EUR 1.1 billion in the first half of 2023, while for card payments it was just over EUR 600 million.

Fraud rates in relative terms (i.e. as a share of the total value of transactions) have remained at low and stable rates for credit transfers, direct debits, and cash withdrawals. Although credit transfers accounted for the largest total amount of fraud, the rate of identified fraud in credit transfers was 0.001% of all transfer transactions in value terms in the first half of 2023. That makes it the safest payment method for consumers of those represented in the graph below, followed by direct debits (0.002% of transactions) and cash withdrawals (0.008% of transactions).

Figure 9. Absolute and relative levels of fraud by type of payment instrument (in EUR million and %, respectively), first half of 2023



Source: EBA and ECB (2024) [103].

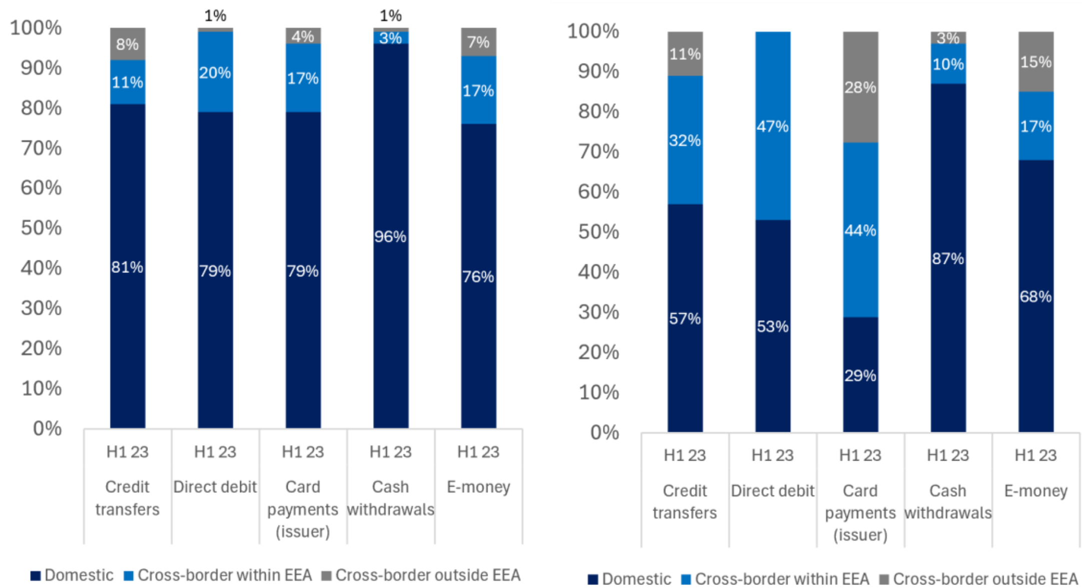
Cross-border payments are much more exposed to fraudulent activity than domestic ones. This phenomenon is illustrated in Figure 10 and Figure 11, where the values and volumes of transactions are compared with the value and volumes of fraud for the first half of 2023, divided by payment method and geographical dimension.

In terms of value, domestic transfers represented 81% of all credit transfers, however they accounted for only 57% of the fraudulent transactions. This tendency can be observed in all types of payments, with cross-border payments being consistently more exposed to fraudulent activity than domestic ones. It is particularly evident for card payments, where domestic payments represented 79% of the total payment value, but only 29% of fraud.

When analysing the volume of payments, cross-border payments are again much more subject to fraud. Payments are overwhelmingly domestic. For example, 95% of credit transfers, 95% of direct debits, and 94% of cash withdrawals are made domestically. While the majority of fraudulent cases are also domestic, fraud rates are considerably higher in cross-border payments. In credit transfers, 36% of the fraud happens in cross-border transactions. The most striking case is direct debit payments, as 47% of all fraud originates from cross-border payments in the EEA while it only represents 5% of total payment volume.

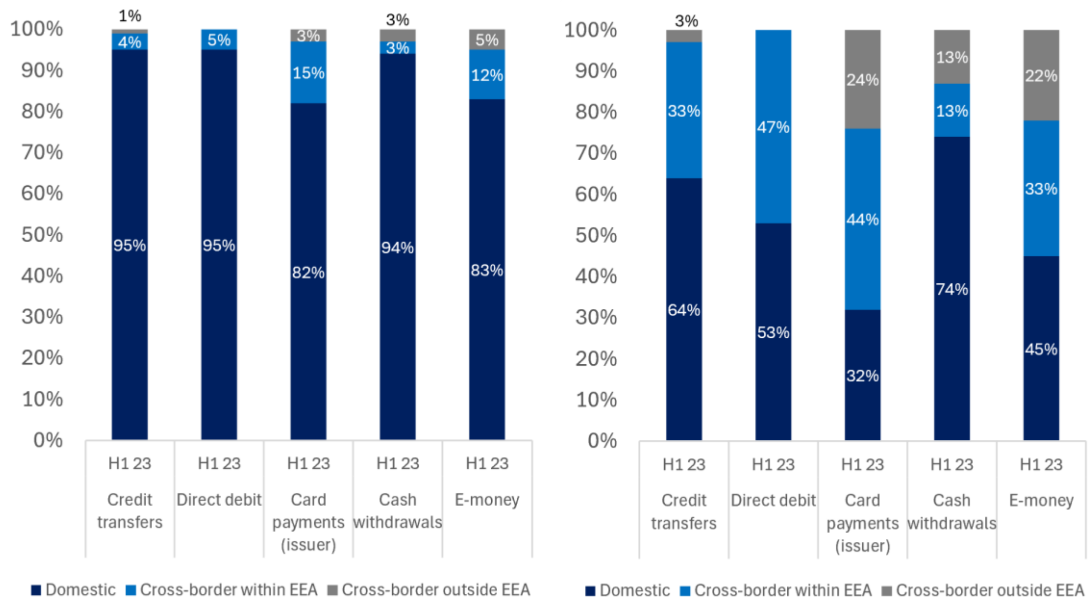
[103] EBA and ECB (2024), '2024 Report on Payment Fraud', Île-de-France and Frankfurt.

Figure 10. Value of payment transactions (left) and fraud (right) by instrument and geographical dimension



Source: EBA and ECB (2024).

Figure 11. Volume of payment transactions (left) and fraud (right) by instrument and geographical dimension



Source: EBA and ECB (2024).

While there is data on fraud at the EU level, reported as required by Article 96(6) of PSD2, there are concerns about the accuracy of the figures. Under PSD2, Member States are required to verify that national competent authorities are provided, on an annual basis,

with statistical data on fraud levels across multiple means of payments. Even so, a unified definition of fraud is lacking, allowing for certain variations in interpretation.

4.2 COMMON TYPES OF FRAUD IN PAYMENTS

As mentioned, the way fraud is conducted has evolved together with technological advancements and changing consumer behaviour. In fact, in recent years new fraud tactics have emerged that circumvent current mechanisms for consumer protection.

Among the main types of fraud on the rise are social engineering and phishing attempts. Social engineering in payment fraud includes numerous ways of trying to manipulate the user. It involves persuading individuals to reveal sensitive information or to complete actions that compromise their financial security. Fraudsters use tactics like phishing (fake emails), vishing (phone scams), smishing (fake SMS messages), and pretexting (impersonating a legitimate source) to trick people into sharing payment details or authorising payment transfers.

Social engineering often leads to authorised push payment (APP) scams. An APP scam actively tries to trick a victim into authorising a payment to the scammer's account or an account compromised by scammers. To achieve this, they contact the victim and impersonate a trusted organisation, e.g. the victim's bank, and create a sense of urgency, convincing them that a transfer of funds is needed. That scenario results in the consumer willingly authorising the payment, believing the transfer is legitimate and completing the transaction of funds. As the payment was authorised, recovery of the transferred funds is nearly impossible.

A growing type of digital payment fraud is the compromise of the enrolment process. A technically advanced type of fraud, it occurs in combination with phishing, vishing, and smishing, where the fraudster redirects the second step of SCA from the device of the user to that of the fraudster. The fraudster in this case usually modifies the payee's bank details, so the payment is sent to their account instead. Once the funds have been transferred, in this case it is almost impossible to recover the funds.

Other new fraud techniques include malware attacks, SEO poisoning, advanced persistent threats, or the use of botnets. In any case, the increasing flexibility and adaptability of fraudsters have made the identification, prevention, and threats far more difficult.

The problem of recovering funds is amplified by instant payments, as the transfer of money is completed within a few seconds. As a result, this type of fraud, where the consumer is tricked into confirming a payment, has the potential to cause big issues for all consumers, and even more so for vulnerable ones.

4.3 PAYMENT SERVICES LEGISLATION

The PSD2 is the most relevant legislation in place to protect consumers. It aims to increase payment transaction security and combat fraud by implementing SCA. On the basis of a specific procedure for the confirmation of a digital payment, SCA requires the payer to go through an additional step to identify themselves in every transaction. SCA mandates that the customer provides two of the three following factors in order to complete a payment:

- proof of knowledge (e.g. a password or pin code that only the user knows),
- proof of possession of a payment means belonging to the payer (e.g. a card or phone), or
- inherence (e.g. a fingerprint or retinal/facial recognition).

A customer unable to provide two out of these three elements will not be able to complete a payment.

For a PSP enabling an e-commerce payment, SCA requires setting up an additional identification step when the customer is checking out. In that regard, 3DSecure2 has become the most commonly used protocol in e-commerce for Visa and Mastercard, although certain Member States have other domestic protocols. In some of these the solutions are provided by private players, which can cause liability problems with banks in cases where the flaw does not lie with them but with the provider.

The establishment of SCA, whose costs are carried by the industry, has been successful in increasing the security of digital payments. Nevertheless, it also suffers from certain negative side effects stemming from suboptimal implementation, as discussed in Section 3.

- The increase in security has come at the cost of more false positives, where a transfer is blocked even though fraud is not involved in the payment.
- The additional step that was added in the checkout process has arguably worsened the user experience, leading to fears of lower conversion rates.
- When SCA was introduced, it was set up very prescriptively. This approach is starting to show shortcomings, as it does not allow PSPs to update SCA in parallel with digital developments.

Since PSD2 was introduced, fraud has adapted. Because of their flexibility and adaptability, fraudsters have developed innovative ways to circumvent current regulation. The proposed PSR and PSD3 aim to tackle these issues by providing more

clarity on SCA requirements and the application of exemptions. The proposals suggest additional anti-fraud measures. They include an extension of the IBAN/name matching verification to all credit transfers and a legal basis for PSPs to share fraud-related information between themselves in full compliance with the GDPR. They also contain provisions for strengthening transaction monitoring, an obligation by PSPs to carry out training to increase awareness of payments fraud among their customers and staff, and an extension of refund rights of consumers in certain situations[104].

The objective is also to develop a more risk-based approach to combat fraud, moving away from the prescriptive approach of the previous legislation. The elaboration of regulatory technical standards that are more risk-oriented could play a crucial role in encouraging PSPs to develop new methods to combat fraud while at the same time enhancing user-friendliness. In that regard, enabling the use of new technologies such as behavioural biometrics, AI, the development of digital IDs or tokenisation, and the harmonised use of exemptions already laid down in PSD2 could help achieve both objectives more efficiently.

Nevertheless, the new proposed regulation is not perfect, and some amendments are warranted[105]. Provisions related to fraud in PSD3/PSR should focus on prevention and take a balanced approach, particularly on APP fraud[106]. Instead of placing all the responsibility on banks as proposed, the obligations to prevent and mitigate fraud should be shared more equitably among the various providers involved in the chain leading to a scam or fraud. According to the European Parliament, telecom service providers and digital platform providers should share some of the liability, given that they are the access points used by fraudsters to attract consumers, for example through messaging services or fake online ads[107]. Information and signal-sharing platforms are key to providing data that can activate robust, real-time algorithms to combat fraud.

It would therefore be more effective to take a society-wide approach with all market players cooperating to prevent fraud. Financial literacy and campaigns explaining the tactics and behaviour of fraudsters play an important role in helping consumers to better

[104] Arnal, J., Andersson, F., and Pozo Pérez, B. (2024), 'Priorities of the next European Commission for payments', CEPS and ECRI, Brussels.

[105] Idem.

[106] APP fraud is a type of financial scam where fraudsters deceive individuals into willingly authorising a payment from their own bank account to an account controlled by the fraudster. In APP fraud, victims believe they are making a legitimate payment, often under the pretence of paying for goods or services, settling a debt, or transferring funds to a secure account, when in fact they are being manipulated into transferring money to the scammer's account.

[107] Finextra (2024), 'Next UK government should make Big Tech pay to fight scams– UK Finance', 31 May; Payment Systems Regulator (PSR) (2024), 'New report from PSR shows how fraudsters exploit major platforms to scam consumers', 17 December.

recognise and deal with scams. It could likewise help them to better understand that some of the procedures they might find cumbersome are designed to protect them. In any case, one thing is for sure: all operators involved in APP scams need to have more tools at their disposal to be better equipped to prevent and mitigate fraud.

Moreover, proposed legislation should focus not only on liability, but also and especially on fraud detection, mitigation, and prevention. The participants in the value chain should not be concerned about finding a liability partner, but about providing strong customer protection across the fraud chain.

As for SCA, the following points should be considered.

- As a principle, a technologically neutral approach should be favoured, allowing the industry to develop solutions that are more secure for the consumer and entail less friction, which can be adapted to each market.
- More flexibility on the technical requirements can be achieved by permitting the use of two factors from the same category (knowledge, possession, and inherence) as proposed by the Commission. This approach would facilitate innovation and the adoption of more advanced and secure authentication methods that evolve with fraud practices but would also likely require additional safeguards. The liability in such a scenario would have to be clarified.
- While SCA mechanisms that involve technical service providers have generally been effective, there is a need for legal clarity on what constitutes delegated or outsourced SCA. Not all instances involving a third party should require formal outsourcing agreements. A clear distinction must be made between outsourcing and relying on third-party technology. The critical aspect is whether the issuer maintains control over the SCA process. If the issuer does retain control, a bilateral outsourcing agreement should not be mandatory. The principle is that the technical service providers do not have a direct contractual relationship with end users (payees or beneficiaries) but with the PSPs to which they offer their technical services. It is the PSP that manages the financial risk, which is embedded in the pricing of the financial products to its end users and through specific insurance products.
- There is a need for a harmonised EU approach to SCA exemptions during technical outages. An exception should be introduced for deferred authorisations to prevent the interruption of services and availability of certain types of goods or services. This would pave the way for a more seamless and uninterrupted customer experience even during technical difficulties.

- The further development of tokenisation could benefit consumers in the EU in the context of payment services. Tokenisation replaces the number found on a credit or debit card (PAN) with a digital token – a completely unique string of numbers with no meaningful data. This means that when a payment is tokenised, the consumer's underlying account details are obscured, such that the data are unreadable and unusable by anyone but the user for whom the payment was authorised. Certain SCA requirements should be removed to make way for more innovation in this area. In this respect, SCA should apply when a token is created and the user is carrying out an action, but not be required for updates or subsequent use. This approach would support the secure and efficient use of tokenisation in payment services.

- SCA has been effective in fraud prevention, but additional effort is needed to make it more user-friendly. The customer journey from start to finish should be as seamless as possible and avoid customer abandonment.

Additionally, an issue that needs to be resolved is that in certain countries, PSD3 and PSR do not go far enough to ensure reasonable protection of consumers. The requirements would be a set-back for certain Member States that have implemented further fraud prevention measures because of the PSD2 shortcomings. Hence, the obligations presented in new regulations should only function as minimum requirements to combat fraud.

4.4 OTHER INITIATIVES

Other EU initiatives also aim to enhance consumer protection against fraud in payments. The Instant Payments Regulation includes specific requirements as instant payments today face significantly higher fraud rates than 'traditional' payments[108]. Notably, it introduces a verification of the payee process. This means that before completing a transfer or payment there should be a verification check of both the payee's IBAN and name. The system will warn the user when the entered details do not match. The tool aims to build consumer trust and increase security.

Another European Commission initiative that can assist in combating fraud is the creation of an eID system enabling users, inter alia, to electronically identify themselves for digital transfers. Set up in 2014, the eIDAS Regulation on electronic identification concerns the use of national eID solutions for online public services in the EU. Although its implementation has been successful, its uptake is less so, with a high degree of heterogeneity across Member States. A success story in this regard is Sweden, where

[108] EBA (2024), 'EBA Opinion on new types of payment fraud and possible mitigants', EBA-Op/2024/01, 29 April.

'BankID' had been launched in 2003. It quickly demonstrated the benefits of eID through a rapid reduction in identity fraud.

This led the European Commission to propose a revision of the original regulation, called the European Digital Identity Framework, that could be recognised in the entire EU, in 2021. The concept of EU Digital Identity wallets have thus been developed by means of collaboration between EU institutions and Member States, with the new regulation being adopted in February 2024[109]. These wallets will enable users to carry their digital identity throughout the EU while easily keeping control of their data. They facilitate data sharing and authentication of payment service users when completing a payment. Large investment will be necessary for Member States to integrate eID wallets into their public and private services. For this to occur smoothly, close cooperation will be needed between private and public entities in specifying standards.

Nevertheless, the effects of ID wallet protection may fall short of expectations as users are vulnerable to the changing methods of fraudsters, which are becoming increasingly sophisticated in using social engineering techniques that manipulate the payer into authenticating payments. In Sweden, fraudsters have shifted their tactics to user manipulation, for which having an eID can scarcely offer protection.

[109] European Commission (2024), 'About the initiative'.

5 POLICY RECOMMENDATIONS

Summary

- There is a common call for the EU to change gear and payments are no exception. EU leaders and co-legislators need to put in place a new European payments policy to provide a strategic vision and simpler and more harmonised regulation.
    - Develop a more strategic and shared vision between the public and private sectors by establishing a high-level forum where senior representatives of European and national public institutions could meet with private sector CEOs. This could be a new forum or a more strategic layer within existing initiatives such as the Payment Systems Market Expert Group or the ERPB.
    - It is critical implement the recommendations of the Letta and Draghi reports, more specifically:
        - provide clear level 1 texts and avoid delegation to level 2 measures on issues where agreement cannot be reached at the political level;
        - uphold the principle to which the co-legislators committed in 2016, i.e. of assessing the impact of substantial legislative amendments where they risk increasing costs, creating unintended consequences or undermining simplification efforts;
        - promote harmonisation by removing options and national discretion from draft legislation and encourage a consistent approach by national competent authorities;
        - ensure proper enforcement of competition rules by competition authorities.
- Support strategic autonomy and competitiveness so that the most-promising fintech developments reach EU and global scale. To this end, full respect of the principle of technological neutrality is a must. At the same time, market players should develop sound business models. A fair distribution of value and risk across the value chain is needed, with consumers benefiting from a high level of protection, while acknowledging that some degree of risk is inherent.

- Encourage interoperability and standardisation. Investment in harmonised standards and infrastructure is needed to enable seamless interoperability between payment systems. This should be the result of a joint effort by public and private stakeholders. While progress has been made in broadening access to technologies such as NFC and Secure Elements, assessment is needed of whether additional measures under PSR/PSD3 could further support fair access to these technologies.

- Foster innovation and new technologies by prioritising R&D in areas such as account-to-account transfers, security, and analytics. The implementation of the Instant Payments Regulation should account for the varying levels of development in the Member States, emphasising infrastructure upgrading in less advanced markets and technological integration in mature ones.

- Bolster data privacy and governance by providing clear definitions in FIDA for the data covered and for FISPs. Disproportionate obligations on the interaction between data holders and data users should be avoided, with compensation mechanisms that are flexible and business-driven. Alignment between Open banking and open finance should over time be strenghtened, to prevent the double-charging of consumers for data access and different permission dashboards. There should be greater consistency with the GDPR and the Data Governance Act to support regulatory clarity, compliance, and data protection.

- Promote transparent, comparable, and equitable cost structures to increase the adoption of modern payment methods. This will improve financial literacy and help merchants and consumers to make better-informed decisions.

- Strengthen fraud prevention and consumer protection.

  - Support collaborative efforts among all stakeholders. Fraud-sharing mechanisms, based on EU-wide anti-fraud task forces and building on initiatives like the ERPB's working group on fraud prevention, should be cultivated to share intelligence on fraud between PSPs, electronic and digital service providers, and law enforcement, while maintaining privacy standards.

  - Allocate liability proportionately across the entire value chain. Moreover, legislation should focus not only on liability, but also and especially on fraud detection, mitigation, and prevention.

  - Streamline SCA, by (i) prioritising flexibility in its requirements for smoother customer journeys, innovation and security (ii) specifying the role of third parties in SCA (iii) harmonise the EU approach to SCA exemptions for technical outages (iv) facilitating innovation in tokenisation

- Maximize the digital euro use of existing European technical, operational, and financial infrastructure, such as TIPS and Real Time 1 (RT1) for instant payments, to ensure its efficient implementation and avoid duplication of resources and investment. Similarly, the digital euro must use public and private standards where they already exist and develop new open standards to guarantee interoperability with other payment schemes and solutions.

- Enhance consumer and merchant awareness, knowledge, and confidence by developing tools such as recognisable 'trust marks', badges or IDs for verified PSPs. This is particularly important to build consumer confidence in account-to-account payment solutions and facilitate their adoption.

We are in the midst of a global transformation, marked by intense competition for raw materials and essential resources, long-term structural shifts in value chains, geopolitical tensions, humanitarian crises, climate change, and demographic challenges. While these factors expose the EU's vulnerabilities in terms of external dependencies, they also drive innovation, accelerate technological advancements, and create opportunities for greater efficiency and resilience. This evolving landscape has prompted deeper reflection among EU leaders and business decision-makers on how to turn these challenges into strategic advantages.

The Letta and Draghi reports as well as the Antwerp Declaration for an Industrial Deal and the Budapest Declaration for a Competitiveness Deal for Europe all share a common denominator: a call for the EU to change gear. To rethink its governance. To remove barriers that hinder access to innovations developed by major players, while addressing the productivity gap, simplifying legislation, and reducing the burden of compliance on companies. At the same time, it must ensure strategic investment in future technologies to foster a competitive and dynamic market. A new economic model is therefore required if the EU wants to remain competitive and an industrial powerhouse, while ensuring a level playing field that fosters fair competition and innovation for all market participants.

The EU has made significant policy strides in payments with initiatives such as SEPA, which has built a new European infrastructure based on account-to-account payments, or TIPS, the pan-European centralised settlement platform, paving the way for instant and simplified cross-border payments. In the context of SEPA, a vibrant European payments ecosystem has evolved, with the launch of new digital payment initiatives, which are now growing and coming together to deliver pan-European reach.

The current European policy framework for payments could benefit from further refinements to enhance its effectiveness. Clarifying the long-term vision and better aligning public and private stakeholders would help provide greater predictability for future investment. Moreover, the plethora of legislation and legal requirements is increasing complexity and constraining capacity, with fragmented supervision leading to competitive distortions within the EU and in relation to non-European companies.

In an increasingly dynamic context – where technology is advancing rapidly, the needs of consumers and merchants are changing, and global competition is intensifying – strengthening collaboration between the public and private sectors is essential for Europe's strategic sovereignty and competitiveness.

The EU should streamline its legislative framework on payments by cutting red tape, prioritising strategic investment, and developing a harmonised approach to achieving strategic autonomy in payments, with clear timelines and measurable targets. Thus, we call on EU leaders and co-legislators to put in place a new European payments policy.

5.1 FORGE A NEW EUROPEAN PAYMENTS POLICY

5.1.1 Enhancing the single market for payments: The need for strategic vision and better governance

- Incorporate the core aspects necessary for a change of gear in the payment services sector – like other sectors that were further explored by Enrico Letta and Mario Draghi. These are a clear and ambitious long-term strategic vision, strong leadership, better governance, and a coherent way forward.

- Work towards a Payment Services Union to boost the efficiency and competitiveness of the EU payments market. The current EU payments market is still highly fragmented on the supply side, with multiple solutions operating solely at the national level, while international card schemes are the only ones facilitating cross-border transactions at the point of interaction. The emergence of other cross-border payment solutions, particularly those based on account-to-account transfers, could be facilitated by a greater uptake of the SEPA Instant Credit Transfer scheme, but its adoption for retail payments remains limited.

- Enhance the governance of EU payments by strengthening the framework, building on new or existing structures while providing access to both European and non-European players. One possible approach would be to establish a high-level forum where senior representatives of European and national public institutions meet with private sector CEOs to discuss and strategically shape the future direction of payments in the EU. Another possibility would be to create a strategic layer within existing fora, like the Payment Systems Market Expert Group or the ERPB, for exchanges between high-level public and private-sector representatives.

- By fostering cooperation between regulators, industry leaders, and consumer organisations, this approach would streamline regulatory processes, reduce administrative burdens, and improve the ease of doing business across the EU. Moreover, aligning this governance model with the Commission's priorities for 2025 and beyond would support a more competitive, efficient, and dynamic single market for payments.

5.1.2 Simplify and harmonise regulations

- Align the high-level strategic objectives set out in regulatory roadmaps and the level of detail provided in level 2 and 3 measures to give greater clarity and predictability to market participants. Equally, there is often a tension between the need to foster innovation – which inherently involves some degree of risk – and the prevailing regulatory approach, which prioritises risk mitigation or elimination. This over-cautious stance can inhibit investment and the adoption of new solutions. While regulatory sandboxes allow for some learning, they do not fundamentally alter the EU's regulatory approach, raising questions about their real benefits for industry. More *ex ante* and *ex post* impact analysis of EU legislation on the market are needed

- Simplify regulation. Level 1 texts need to be clear with result-oriented objectives, articulating the intent of legislation and ensuring industry can adjust and innovate. The EU must curb the growing tendency to delegate to level 2 measures on issues where agreement cannot be found at the political level. This has often led to a level of granularity in level 2 measures that has a much deeper impact on industry than the agreed level 1 text.

- Use regulatory restraint. Another trend is to legislate without allowing sufficient time for rules to bed in and stabilise. One example is implementation of PSD2, which faced delays from Member States, additional standards from the EBA, and multiple opinions from the EBA through Q&A and other mechanisms. Even before

these rules have been fully implemented, they are being reviewed under PSR. This growing complexity, which increases the compliance burden on industry, does not help European businesses. In this context, it is essential that co-legislators uphold the principle they committed to in 2016[110], of assessing the impact of substantial amendments where they risk increasing costs, creating unintended consequences, or undermining the simplification potential of a Commission proposal.

- Facilitate compliance. Companies need to use their R&D resources to innovate, create jobs, deliver cheaper added-value services and remain competitive. Instead, companies are drowning in multiple forms for reporting with levels of granularity that can go down to the live reporting of transactions. These compliance requirements are becoming ever more complex, putting European companies at a disadvantage vis-à-vis their counterparts[111].
- Harmonise. The European Commission is currently working towards the highest level of harmonisation by converting directives into regulations. But some of the rules that allow for national options remain unchanged in the draft texts of newly proposed pieces of legislation[112]. Even in the case of regulations, supervision is often delegated to national competent authorities, which apply different interpretations and criteria, leading to an unlevel playing field between home-based companies and host-based ones. If the goal is to achieve a single market for payments, the focus should be on reducing red tape and harmonising implementation and supervisory enforcement.
- Prevent anti-competitive practices. Competition regulators should closely monitor the application of EU legislation as well as scheme rules and practices to prevent their misuse. This includes prohibiting exclusivity agreements that stop merchants from offering alternative payment options and ensuring that payment methods are fairly displayed during the checkout process. Implementing transparency requirements for digital payment providers can help mitigate the risk of consumer manipulation while cultivating a more inclusive and competitive payments ecosystem.

[110] European Parliament, Council of the European Union and European Commission (2016), 'Interinstitutional Agreement between the European Parliament, the Council of the European Union and the European Commission on Better Law-Making', OJ L 123, 1-14.

[111] An example to highlight is CESOP (Central Electronic System of Payment information) and its level of granularity.

[112] For instance, Article 28(4) of the PSR allows Member States the possibility to extend the prohibition or limit the right of the payee to request charges for the use of payment instruments other than those referred to in Article 28(3).

5.2 SUPPORT STRATEGIC AUTONOMY AND COMPETITIVENESS

- Focus legislative and supervisory efforts on enabling European fintech players to attain European and global reach, concentrating on remaining barriers where the EU could play a role..
    - Remove some of these hurdles stemming from legacy legislation and its lack of technological neutrality[113]. A level playing field requires strict adherence to the principle of technological neutrality, applying a 'same activity, same rules, same rights' approach that guarantees fair competition across all payment instruments.
    - Invest in a pan-European acceptance network for the euro currency.
    - Incentivise ASPSPs to improve the quality of their APIs so that the EU has a well-functioning open banking ecosystem. One potential approach is to build on existing initiatives, such as SEPA Payment Account Access, which has established a remuneration system.
- Market players should prioritise the development of clear and well-grounded business models. This is essential for securing a sustainable position in the market, regardless of the payment infrastructure they rely on. Equally, it is crucial that value and risk are fairly distributed across the entire payment chain. Consumers should have strong protections in place, while recognising that some level of risk is inherent in any payment system. Merchants should benefit from value for money and access to economies of scale, with fair compensation along the value chain.

5.3 ENCOURAGE INTEROPERABILITY AND STANDARDISATION

- Invest in harmonised standards and infrastructure for seamless interoperability between payment systems, including instant payments and the digital euro. The necessary investment in harmonised standards and infrastructure should be a shared effort between public and private stakeholders. The ECB and the European Commission play a key role in setting the regulatory and technical framework, while financial institutions and PSPs contribute by adapting their systems and making them interoperable across payment solutions.

[113] Examples here are the current issues faced by new payment systems based on account-to-account payments that cannot benefit from the same legal SCA exemptions given to cards, such as recurring payments, or sanction screening.

- Support innovation by leveraging existing infrastructure and furthering cooperation among PSPs, fintechs, merchants, and regulators.

- Promote a level playing field for access to the hardware and software components of operating systems. While the actions taken by the European Commission and the private sector represent significant progress in granting access to technologies such as NFC and Secure Elements, policymakers should assess whether additional measures under PSD3/PSR could further extend fair access to NFC technology and ecosystem fee structures, such as:

  - ensuring transparent and non-discriminatory access to NFC technology, allowing third-party providers to offer contactless payments while maintaining robust security standards – ideally through eligibility criteria, transparency requirements, or a regulated access framework rather than rigid mandates;

  - reviewing ecosystem fees to assess their impact on competition and innovation, making sure that they remain proportionate and do not unduly disadvantage new entrants;

  - encouraging interoperability through voluntary industry standards or incentives for cross-platform compatibility, fostering innovation without imposing restrictive regulatory obligations.

- Enhance standardisation for greater interoperability and competition. Regulatory authorities should prioritise the development and adoption of standardised frameworks that improve interoperability between payment systems. This includes the advancement of technologies such as NFC and Bluetooth to support seamless integration across different payment methods. By ensuring that mandatory standards do not act as barriers to market entry or competition, policymakers can expand consumer choice, boost innovation, and increase cross-border payment efficiency.

5.4 FOSTER INNOVATION AND EMERGING TECHNOLOGIES

- Support technological innovation, particularly R&D in priority areas like account-to-account transfers, security, and analytics.

- Tailor strategies and market integration for instant payments. The implementation of the Instant Payments Regulation should account for the varying levels of development in the Member States, focusing on infrastructure upgrading in less advanced markets and technological integration in mature ones. Emphasis should be placed on helping intra-EU cross-border payments and

European solutions to compete globally. Allowing non-bank payment institutions to access settlement systems under the same rules and requirements is already a good step that will intensify competition and innovation. Additionally, policymakers should assess how instant payments and the digital euro can complement each other to ensure a cohesive and efficient European payments ecosystem.

- Explore a combined approach: pushing for more API unified implementation while using TIPS for instant settlement. This could lead to a more efficient, secure, and competitive open banking ecosystem in the EU.TIPS could fundamentally reshape the payments landscape by enabling real-time, risk-free settlement in central bank money. While TIPS could reduce reliance on APIs for back-end payment execution, front-end authentication and user experience layers would still require API integration.

- Advance global standards. before proceeding with MiCA 2.0. The EU should prioritise the promotion of international crypto standards rather than acting in isolation. The 'Brussels effect' will enhance global regulatory consistency, facilitate market integration, and strengthen the global crypto ecosystem. By aligning with and shaping international norms, the EU can position itself as a leader in setting comprehensive and effective crypto regulations.

5.5 STRENGHTEN DATA PRIVACY AND GOVERNANCE

- Emphasise clarity along with fair and non-discriminatory access in open finance. The FIDA regulation should provide an explicit, unambiguous definition of the data covered. It should also clearly describe FISPs for consistent regulatory application. Additionally, FIDA should avoid imposing disproportionate obligations on the interaction between data holders and data users, with compensation mechanisms that are flexible and business-led rather than one-size-fits-all. Lastly, legal provisions or operational standards should be established to ensure that all market participants – PSPs, FISPs, and crypto firms – engage in fair competition, and to prevent anti-competitive practices that could limit innovation and consumer choice.

- Finetune the interactions between open banking as reflected in PSD3/PSR, and open finance as proposed in FIDA. Compensation models must prevent customers from having to pay twice for access to and reuse of their data for open finance under FIDA. Moreover, permission dashboards should be unified across FIDA, PSR, and PSD3. This would streamline processes and improve user experience. These structures should also be aligned with the GDPR and Data Governance Act. Such

alignment would increase the consistency of regulatory standards, simplify compliance for financial institutions, and bolster data protection and governance across the board.

5.6 Improve fraud prevention and consumer protection

- Provide more flexibility in transaction risk monitoring, namely the possibility to make use of environmental and behavioural characteristics as put forward in the European Commission's draft proposal.
- Develop robust frameworks to combat fraud and scams, including multi-layered technical defences such as transaction monitoring, blocks on suspicious transactions, and tagging of high-risk identifiers (e.g. IBANs and URLs).
- Strengthen joint efforts among stakeholders. To this end, promote fraud-sharing mechanisms arising from EU-wide anti-fraud task forces. Build on initiatives like the ERPB's working group on fraud prevention to share intelligence on fraud between PSPs, electronic and digital service providers, and law enforcement, while maintaining privacy standards.
- Establish clear rules on liability and liability sharing. The PSR should not create a situation where, for several years or until its review, a single actor in the fraud chain bears the full financial loss, nor should it undermine the legal certainty of payments (payment finality). Instead, liability should be allocated in a proportionate manner across the entire value chain, so that financial and operational responsibilities are fairly distributed among all relevant stakeholders while maintaining confidence in the integrity of payment transactions. The PSR should clarify that such cooperation is essential and compatible with EU data privacy principles and rules. Equally, a proper impact assessment should be carried out on the consequences of Article 59 of the PSR, which imposes liability on the PSP in any case of bank impersonation.
- Focus not only on liability, but also and especially on fraud detection, mitigation, and prevention in proposed legislation. Participants in the value chain should not be concerned with finding a liability partner, but with providing strong customer protection across the fraud chain.
- Clarify and properly define the notions of authentication and authorisation in the regulation. The legislative framework must not allow for legal uncertainty.
- Provide more clarity on the interaction between anti-fraud measures and anti-money laundering initiatives. Some anti-money laundering procedures, for instance the requirement to report each case to the national authorities and wait

for their decision, would hamper the fight against fraud, which requires quicker action.

- For SCA, consider the following points:
    - Prioritise flexibility in SCA requirements for smoother customer journeys, innovation and security. Over-rigid technical requirements can stifle innovation and pose security risks. Granting the use of two authentication factors from the same category, as proposed by the Commission, would allow adaptation to evolving fraud tactics and support the adoption of more advanced security measures.
    - Specify the role of third parties in SCA. Clear legal distinctions should be made between outsourcing and reliance on third-party technology in SCA processes. If the issuer retains control of authentication, formal outsourcing agreements should not be mandatory, thus providing regulatory clarity while maintaining that financial risk stays with the PSPs.
    - Harmonise the EU approach to SCA exemptions for technical outages. A standardised EU-wide exemption for SCA during technical failures should be introduced, particularly for deferred authorisations. This would prevent service disruptions and improve the customer experience during system outages.
    - Facilitate innovation in tokenisation. Champion fair and non-discriminatory access to tokenisation services, given the security component they provide in a digitalised economy.

5.7 ENSURE COST TRANSPARENCY AND FAIR PRICING

- Promote transparent, comparable, and equitable cost structures that support broader adoption of modern payment methods. This will increase financial literacy and enable merchants and consumers to make better-informed decisions.

5.8 STREAMLINE THE DIGITAL EURO PROJECT

- Undertake a cost-benefit analysis of the digital euro. For its successful coexistence with private payment options, it is paramount to understand all the ways in which the digital euro may impact the European payments market and its stakeholders. This will help identify synergies and opportunities for collaboration that align the ECB's goals with the ongoing efforts of market players in the areas of innovation and resilience.

- Ensuring continued coordination between the European Commission's retail payments strategy and the ECB's digital euro project, particularly on timelines and strategic priorities, to provide greater clarity and confidence to the payments and banking sector. While the Commission's retail payments strategy includes the digital euro, ensuring alignment in communication and implementation could assist Europe's financial industry.

- Simplify the digital euro proposition in terms of its objectives and design. Together with a gradual, phased implementation, this could help to mitigate some of its potential disruptive effects.

- Include as a core principle of the digital euro project the use of existing European standards, as well as technical, operational, and financial infrastructure, such as TIPS and RT1 for instant payments. This will pave the way for efficient implementation and significantly reduce the investment required. Similarly, the digital euro must use public and private standards where they are already in place and develop new open standards to guarantee interoperability with other payment schemes and solutions.

5.9 PROMOTE DIGITAL INCLUSION AND SUSTAINABILITY

- Align payment providers with sustainability goals, moving to energy-efficient digital payments that have lower societal costs.

- Increase consumer and merchant awareness, knowledge and confidence, by developing tools such as recognisable 'trust marks', badges or IDs for verified PSPs. This would be especially important to build consumer confidence in account-to-account payment solutions and facilitate their adoption.

- Expand financial inclusion by addressing the barriers faced by vulnerable demographic groups – such as older people, individuals on low incomes or with limited digital access – in the transition to digital payment systems. This may involve measures such as promoting digital literacy, increasing the availability of alternative payment methods, and improving accessibility features. Public-private initiatives are key to providing access to training in financial and digital literacy for modern financial services.

APPENDIX A. MEMBERS OF THE TASK FORCE[114]

CHAIR

Madalena Cascais Tomé, CEO, SIBS Group

MEMBERS

Amazon

Banco Santander

Bancontact Payconiq

Bizum

COFACE – Families Europe

Deloitte

EuroCommerce

European Payments Initiative

European Savings and Retail Banking Group (ESBG)

European Third Party Providers Association (ETPPA)

Mastercard

Nordea

Payment Services Austria

Payments Innovation Consulting

Portuguese Banking Association

Schufa Holding AG

SIBS Group

Visa

Academia

Peter Bofinger, University of Würzburg

Andrew Whitworth, European University Institute

OBSERVERS

European Central Bank

European Commission

National Bank of Latvia

RAPPORTEURS

Judith Arnal, Senior Research Fellow, CEPS and ECRI

Fredrik Andersson, Researcher, CEPS and ECRI

Beatriz Pozo Pérez, Financial Markets and Institutions Unit Coordinator, CEPS

[114] This report was drafted by the rapporteurs of the Task Force. Its recommendations do not necessarily reflect a common position reached or endorsement by all members, nor the views of their respective institutions in any manner.

APPENDIX B. TASK FORCE MEETINGS AND SPEAKERS

1. First meeting – Introduction and stocktake of the European payments market (27.9.2024)
    - Stocktake of the state and trends in the market, Madalena Cascais Tomé, SIBS Group
2. Second meeting – Strategic autonomy and competition in the payments market (25.10.2024)
    - Cross-border payments in Europe, Niels Ellung-Jacobsen, Implement Consulting Group
    - The digital euro and its interplay with other payment solutions, Erik Tak, ECB
    - How open banking can contribute towards increased competition and strategic autonomy, Ralf Ohlhausen, ETPPA
3. Third meeting – Digitalisation, innovation and data (29.11.2024)
    - What the future could look like for payments, Vera Costa, Head of Product, MB WAY
    - How instant payments are driving innovation and digitalisation in the banking sector by leveraging data, Fernando Rodríguez Ferrer, Bizum
    - The merchants' perspective, Atze Faas, EuroCommerce
4. Fourth meeting – Consumer protection, fraud prevention and data sharing (11.12.2024)
    - The card industry's insights, Julien Gabillet, Director, Lead Risk Advisor, France, Belgium and Luxembourg, Visa
    - The role of banks, Andreas Widegren, Head of Public Affairs, Nordea
    - The consumer perspective, Vinjay Prankivan, Senior Economist, DECO
5. Fifth meeting – Task Force recommendations (25.1.2025)
    - Industrial policy and leapfrog, Michael Salmony, Founder & CEO, Payments Innovation Consulting

PRINCIPLES AND GUIDELINES FOR THE TASK FORCE

Task Forces are processes of structured dialogue among national and EU policymakers, industry representatives, practitioners and civil society actors/NGOs, who are brought together over several meetings. Task Force Reports are the final output of the discussions and the research carried out independently by CEPS in the context of the Task Force. Task Forces are organised and implemented in full compliance with the CEPS Integrity Statement.

Participants in a Task Force

- Rapporteurs are CEPS and external researchers/academics who organise and implement the Task Force, conduct the research independently and draft the Final Report.
- Participants can include for-profit entities, membership organisations, NGOs and scholars. This ensures that discussions are balanced and evidence-based, making the modus operandi and final output truly multi-stakeholder. Observers are policymakers or key stakeholders who are invited to attend the Task Force meetings and provide oral and written input.

Objectives of a Task Force report

- Task Force reports are meant to contribute to policy debates by presenting a balanced set of arguments, based on the Task Force discussions, available data and literature as well as qualitative research.
- Reports seek to provide readers with a constructive and critical basis for discussion. Conversely, they do not seek to advance a single position or misrepresent the complexity of any subject matter. Task Force reports also fulfil an educational purpose and are therefore drafted in a manner that is easy to understand.

The role of the Task Force participants

- Participants' contributions may take the form of participation in informal debates or formal presentations during the meetings, or a written submission. Participants are given opportunities to provide observations on the Task Force report before it is published, as detailed below.

Drafting of the Final Report and Recommendations

- The Final Report is drafted in accordance with the highest integrity and scientific standards.
- Task Force participants are invited to comment and send their observations on the draft version(s) of the report. Task Force reports feature a set of key findings and conclusions. To draft these conclusions, rapporteurs mainly consider the research findings and consider members' evidence-based views. Task Force reports feature a set of policy recommendations. Task Force participants are not expected to endorse these recommendations.
- The overall content of the report remains the sole responsibility of the rapporteurs, and its content may only be attributed to them and not their own institutions or the Task Force participants.

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CEPS is one of Europe's leading think tanks and forums for debate on EU affairs, with an exceptionally strong in-house research capacity and an extensive network of partner institutes. CEPS is committed to carrying out state-of-the-art policy research that addresses the challenges facing Europe and maintaining high standards of academic excellence and unqualified independence and impartiality. It provides a forum for discussion among all stakeholders in the European policy process and works to build collaborative networks of researchers, policymakers and business representatives across Europe.

European Credit Research Institute

ECRI is an independent, non-profit research institute that develops its expertise from an interdisciplinary team and networks of academic cooperation partners. ECRI provides in-depth analysis and insight into the structure, evolution and regulation of retail financial services markets in Europe. Through its research activities, publications and conferences, ECRI is engaged on a variety of topics in the area of retail financial services at the European level, such as consumer credit and housing loans, credit reporting, consumer protection and electronic payments. ECRI also provides a venue for its members to participate in the EU-level policy discussion.

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