



Priorities of the next European Commission for payments¹

Judith Arnal, Fredrik Andersson and Beatriz Pozo Pérez

Explainer

Introduction

EU payments have evolved dramatically over the past decades. From initially relying on cash, cheques, and then credit and debit cards, the last 10 years have seen the emergence of numerous digital and mobile payment options. Supported by the digital transformation, banks and third-party providers have created new ways to make online and in-store payments. These innovations have also been the result of various legislative initiatives and Eurosystem investment in new infrastructure.

The payments market has likewise seen major changes, starting with the Payment Services Directive (PSD1) adopted in 2007, followed by its revision in 2015 (PSD2). It is currently undergoing a third revision, which proposes to split the directive into two parts, with proposals for a PSD3 and a regulation, the Payment Services Regulation (PSR).

PSD2 supported new means of payment by giving third-party providers access to payment accounts and payment initiation services (i.e. open banking). Still, open banking has a long way to go before it reaches its full potential, with the PSD3 and PSR proposals trying to tackle issues.

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 (financial data access), whose approval would legally establish such access, commonly referred to as open finance.

In line with the objectives set by the European Commission in its retail payments strategy in 2020, the Instant Payments Regulation was adopted in March 2023, with the aim of making all bank accounts accessible 24/7/365. With the new regulation, bank transfers will no longer require a few days but a few seconds. In parallel with traditional payment methods tied to a bank account, cryptocurrencies – regulated by the Markets in Crypto-Assets Regulation (MiCA) – are gaining traction. This is partly thanks

¹ The authors would like to acknowledge the very helpful comments provided on a previous draft of this document by Mafalda Moz Teixeira, payments expert, member of the European Commission expert group on payments (PSMEG), board member of the European Payments Institution Federation and Head of Government Affairs at SIBS; Craig Ramsey, Head of Real-Time Payments, Product Management at ACI Worldwide; and Andrew Whitworth, Ripple's Policy Director for EMEA.

to their ability to facilitate cross-border and digital payments while allowing the user to remain anonymous.

Although the capacity of crypto-assets to work as a means of payment remains to be seen, the ECB has started working on a digital euro. The aim is to launch a new payment method alongside traditional money, functioning as a digital cash option hosted by the ECB and using a 'domestically' developed transfer system. It will have a major impact on the payments market as we know it today, with its full implications yet to unfold.

Yet overall, regulatory processes are lengthy, with draft proposals going through intense debate. The legislation and many regulatory measures have made it increasingly complex to fully understand their real impact on the market or how they interact.

In this paper, we explore the policy initiatives that will be the focus of European legislation in the next institutional cycle. We start with the level one files left pending from the new institutional cycle, namely PSD3/PSR, FIDA and the Digital Euro; then we delve into those entering level two, with a special reference to the Instant Payments Regulation; finally we look into the future and analyse the need for a regulatory pause, as well as for the European Commission to actively promote in other jurisdictions EU's regulatory standards on crypto-assets.

Pending level 1 files: adoption

Payment Services Directive (PSD3) / Payment Services Regulation (PSR)

The Payment Services Directive established the legislative framework for retail payments. Its review, PSD2, was particularly transformative, as it brought forward open banking and enabled third-party providers to access payment accounts on behalf of their users. It allows for new players and new payment solutions, bringing more diversity and competitiveness to the market. In June 2023, PSD3 and the PSR were proposed, to further harmonise EU payment markets. Discussions are still ongoing, with a final text not expected until next year.

Three areas should be carefully considered during negotiations: fraud prevention, Strong Customer Authentication (SCA) and the interaction between open banking and open finance.

Starting with fraud prevention, **PSD3/PSR should take a balanced approach, particularly on authorised push payment (APP) fraud**². Instead of placing all the responsibility on banks as proposed, the obligations should be more equitably shared among the various providers involved in the chain leading to a scam/fraud. According to the European Parliament's position, telecom service providers and digital platform providers should share some of the liability, given that they are the entry points for fraudsters to reach consumers, whether through messaging services or fake online ads. Information-sharing platforms are also key to providing data that can enable robust real-time anti-fraud algorithms. Financial literacy and media campaigns also play an important role in helping consumers to better cope with the scams they fall prey to. One thing is for sure, however: all operators involved in APP scams need to have more tools at their disposal to be better equipped to prevent and mitigate fraud.

² 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.

As for SCA, the following points should be considered.

Over-prescriptive technical requirements can hamper innovation and lead to security risks, by making it difficult to adapt SCA to new types of fraud. In this regard, it is beneficial to permit the use of two factors from the same category (knowledge, possession and inherence) as proposed by the Commission. Moreover, level 1 legislation should allow for flexibility and progress in the field of behavioural biometrics. This approach would facilitate innovation and the adoption of more advanced and secure authentication methods.

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 retains control, a bilateral outsourcing agreement should not be mandatory. Technical service providers do not have a direct contractual relationship with end users (payees or beneficiaries) but with the payment service providers for which they offer their technical services. It is the payment service provider that manages the financial risk, which is embedded in the pricing of the financial products to its end users and through specific insurance products. This principle should remain in the legislation.

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**. Certain SCA requirements should be removed to allow for more innovation in this area. In this respect, SCA should apply when a token is created, but not be required for 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.

In addition, with the recent adoption of the Instant Payments Regulation and the rise of payment methods using account-based instruments, **PSR/PSD3 must level the playing field between account-to-account payment instruments and card-based instruments**. In its [opinion](#) on PSR/PSD3, the ECB also alluded to an unlevel-playing field and called on 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’.

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. **It is inconsistent to envisage a compensation model for open finance under FIDA and not for open banking under PSD3/PSR**. Moreover, 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 General Data Protection Regulation and Data Governance Act. Such alignment would increase the coherence of regulatory standards, simplify compliance for financial institutions, and enhance data protection and governance across the board.

Financial Data Access Regulation (FIDA)

The draft FIDA regulation defines the concept of open finance. This proposal will enable third-party access and data sharing for a wide range of financial services, going well beyond the concept of open banking under PSD2. The ECON Committee of the European Parliament recently approved its FIDA report; however, the plenary vote will take place during the next European Parliament, followed by trialogues. Adjustments by the Parliament and Council could help clarify certain issues of the proposal.

To avoid ambiguity, it is essential to clearly define the data covered by FIDA. Payment account data should be included, given the valuable insights it provides on customer behaviour, further enabling the convergence of open banking and open finance. The data should be raw and unprocessed to avoid potential bias. This approach would help assure that data analysis remains objective and accurate, fostering better decision-making and innovation in financial services.

FIDA should seek to provide a clear and unambiguous definition of financial information service providers (FISPs). This clarity would help to identify which entities fall under this category and ensure that the regulatory framework is applied consistently and comprehensively across all relevant stakeholders.

FIDA should also avoid imposing potentially burdensome obligations on data holders 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 be avoided. Instead, compensation should be business-led and 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 these structures should align with the General Data Protection Regulation and Data Governance Act.

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 either legal texts or operating standards, as well as appropriate supervision, so that firms do not engage in anti-competitive conduct *vis-à-vis* other forms of payments.

Digital euro

The digital euro project, led by the ECB, aims to launch a central bank digital currency. The digital euro has the potential to become a secure, innovative means of payment that contributes to the EU's strategic autonomy. But the project interferes with other initiatives developed for similar purposes, such as the one on instant payments.

What is more, the digital euro could put at risk the business model of many actors in the financial sector. Consumers may feel that it is safer to deposit their money in a central bank account than in a traditional bank. The project would also see payment providers facing a new competitor that offers a free and ECB-backed payment method. While the ECB's digital euro project is likely to include safeguards to protect market players, these are simultaneously likely to reduce the added value of the digital euro.

Consequently, **before launching the digital euro, it is crucial for the European Commission to review and clearly articulate the rationale for its creation.** Defining the specific use cases of the digital euro is essential for its successful introduction to the market. Key considerations include whether there will be holding limits and the types of transactions that will be permitted. Clear guidelines on these aspects

will help stakeholders understand the intended purpose and functionality of the digital euro, so that it meets market needs and expectations.

An explanation of the added value of a digital euro is also necessary for corporates and consumers. This includes detailing the advantages it will offer compared with existing digital payments. By highlighting how the digital euro can enhance financial transactions, increase efficiency and provide new opportunities for businesses and consumers, the European Commission could build stronger support for adoption of the initiative.

To avoid disrupting an already functioning payment system, it is essential to ensure interoperability between the EU's current payment infrastructure and the new scheme set up for digital euro payments. For instance, to make sure that the digital euro can be employed with existing payment solutions, such as cards or instant payments, or that the balance of a consumer's digital euro account is also visible from banking interfaces. Seamless integration with existing systems will facilitate both the transition and the adoption process. This approach will minimise disruption and allow users to leverage the benefits of the digital euro without the need for significant changes to their current payment processes.

The regulation should make use of fraud-prevention systems that have proven effective in the private sector. By incorporating established systems, such as SCA, into the framework for the digital euro, the European Commission could increase the security and trustworthiness of the new digital currency. This would help mitigate potential risks and reassure users about the safety of their transactions.

These measures would contribute to a more robust and well-defined framework for the digital euro, so that it meets the needs of all stakeholders while maintaining a high level of security and interoperability.

Finally, the proposal on the legal tender of the digital euro should maintain a balanced approach.

Level 2 files: implementation

Instant payments

On 19 March 2024, the Regulation on Instant Payments was published in the *Official Journal of the European Union*. The generalisation of instant payments in the EU in euro will be highly beneficial for liquidity management, market competition, user convenience, a possible increase in public revenues, more innovation, further progress in completing the SEPA project and financial inclusion. As of January 2025, all bank accounts in the euro area are to be accessible 24/7/365.

The regulation is a part of a wider objective of ensuring that competitive home-grown and pan-European payment solutions are available, supporting Europe's economic and financial sovereignty. Capitalising on the Instant Payments Regulation, the ECB's TIPS platform and the EPC SCT Inst scheme, the overarching goal is to **develop the technical features necessary for instant payments to reach the point of interaction.**

With only a few months to go before the first set of measures kick in on 9 January 2025, its interplay with other legal texts, such as the Anti-Money Laundering Directive, is not totally clear. Nor is its potential impact on the current fraud prevention measures applied by payment service providers. It is important that regulators and supervisors, as they move into the implementation phase, measure the real costs and benefits of the recently adopted rules and avoid them having a disproportionate effect on the Eurosystem and consumers.

Making bank transfers instantaneous also makes them irrevocable. There is no possibility of recovering funds when a consumer is a victim of fraud or a scam. In less than a minute, funds can travel through

different eurozone accounts and out of the Eurosystem. **It is therefore of utmost importance to allow payment service providers to deploy measures to protect their customers.** These include cooling-off periods when transaction limits are changed, ‘kill switches’ which, once activated, immediately block all accounts and cards until the situation is properly resolved, or the ability to block accounts. These examples would give customers time to understand that they are victims of a scam and tools to protect themselves, and give payment service providers the opportunity to proactively protect their customers.

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.

The implementation of the Instant Payments Regulation should put emphasis on promoting intra-EU cross-border payments. One of the European Commission’s declared objectives for supporting instant payments is to encourage home-grown European solutions that can compete with the US firms that dominate the market.

A key provision in the Instant Payments Regulation involves modifying the Settlement Directive to increase competition. This change allows non-bank payment institutions and electronic money institutions to directly participate in settlement systems established by Member States. 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 fosters 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 enhances the overall efficiency and effectiveness of the European payments system.

Level 3 files: future

There is a need for a few years of regulatory pause to thoroughly map the different types of payment systems from a consumer-centric perspective. Market players need time to set up and properly implement the various legislative initiatives adopted in recent years. The impact of these initiatives and their effects on the market can only be assessed after a few years of practice. This approach also enables the diverse needs and preferences of consumers to be sufficiently reflected in the regulatory framework. By taking the time to understand how different payment systems operate and serve consumers, regulators can design more effective and inclusive policies that enhance user experience and satisfaction.

It is vital to make sure that standardisation processes do not inadvertently reduce competition. While standardisation can promote interoperability and efficiency, it must be implemented in a way that does not stifle innovation or limit market entry by new players. Policies should be crafted to balance the benefits of standardisation with the need to maintain a competitive and dynamic market environment, encouraging continuous improvement and diverse payment methods. **Thus, it is interoperability, rather than standardisation, that should be pursued.**

The MiCA Regulation has successfully created a single market for cryptocurrencies in the EU, providing business certainty and fostering growth in the crypto sector. 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, enhance regulatory coherence, and support the development of a more robust and interconnected global crypto market. By aligning with international norms, the EU can take the lead in setting comprehensive standards that benefit the global financial ecosystem.

Fraud prevention and consumer protection should be a priority in the coming years, given the implications they have for society and for the digitalisation of the economy. It is necessary to take a holistic approach and involve all the providers in the chain – including payment services, telecom services and digital platforms – to understand how to better prevent and mitigate fraud.

The design of the digital euro project must ensure that home-grown solutions and national champions are not carved out, that Europe’s banking system remains stable and able to finance the public across all Member States, and that is interoperable with existing infrastructure and solutions. The decision to issue a digital euro should be taken based on a proper cost-benefit analysis and wider public discussion.

Legislative coherence is paramount, especially in the current geopolitical context. The last decade has seen the adoption of strong anti-money laundering and anti-terrorism financing rules – principles that cannot be put in jeopardy amid today’s geopolitical tensions. Thus, it is most important for the new European Commission to make certain that new legal texts don’t conflict with existing ones and that proper cost-benefit analyses are carried out to determine potential negative impacts.

European Credit Research Institute

The 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. It was founded in 1999 by a consortium of European banking and financial institutions. ECRI's operations and staff are managed by the Centre for European Policy Studies. 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 keeps its members up to date 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.

For further information, visit the website: www.ecri.eu.



Centre for European Policy Studies

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 throughout the world. As an organisation, 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.

For further information, visit the website: www.ceps.eu.

