

To the European Commission

Consultation Reply

on TARGETED CONSULTATION ON THE REVIEW OF THE REVISED PAYMENT
SERVICES DIRECTIVE (PSD2)

4th July 2022

Contact:

EPSM e.V.
board@epsm.eu
EU Transparency Register Number: 75870078560-90

About this document

This document illustrates the response provided by EPSM to the Targeted Consultation on the Review of the Revised Payment Service Directive (PSD2) issued by the European Commission on selected questions.

To ease the reading, only the feedback to the questions that have been answered by EPSM are part of this document. All questions of the consultation may be obtained at the website of the European Commission, [here](#).

About the EPSM

The "European Association of Payment Service Providers for Merchants (EPSM)" is an interest representation and information platform of European payment network operators, acquirers and other payment service providers for merchants. Among the non-voting members are terminal manufacturers, processing and acquiring providers as well as payment schemes. It is based in Munich, Germany.

The [69 EPSM Members](#) have their headquarters in 16 European countries (AT, BE, CH, CY, CZ, DE, FR, GR, IE, IT, LU, LT, NL, SE, UA, UK) and in the US.

Q1: Has the PSD2 been effective in reaching its main objectives?

To which extent do you (dis)agree with the following statements?

(1: strongly agree; 2: somewhat agree; 3: neutral; 4: somewhat disagree; 5: strongly disagree; 6: don't know/no opinion/not relevant.)

Objective to...	1	2	3	4	5	6
Improve the level playing field between the different categories of payment service providers		x				
Create an environment which stimulates innovation in payment services		x				
Make payments safer and more secure		x				
Ensure a high level of protection for PSUs across all EU Member States		x				
Strengthen consumers' rights		x				
Making it easier to make cross-border payments within the EU		x				
Enable PSUs to have a wider choice between different types of payment services providers		x				
Improve the transparency of conditions when PSUs make use of payment services		x				
Contribute to lowering the cost of remittances through a more diverse and transparent market						x

EPSM Answer:

In general, PSD1 and PSD2 have improved the European payments market to a certain extent. Nevertheless, innovations and market developments have happened also in other markets, outside PSD2, e.g. in Switzerland, Australia or Singapore.

As a back draw, certain provisions, like SCA for ecom card payments (so called "pull-transactions"), have been very challenging for many PSPs and PSUs.

Q2: In your view, has the current PSD2 framework achieved its objectives in terms of meeting payment user needs?

To which extent do you (dis)agree with the following statements?

(1: strongly agree; 2: somewhat agree; 3: neutral; 4: somewhat disagree; 5: strongly disagree; 6: don't know/no opinion/not relevant.)

Payment user needs	1	2	3	4	5	6
PDS2 has contributed to market players developing more convenient payment		x				

EPSM Answer:

The last five years has seen an exponential growth in payments innovation and PSD2 has definitely been instrumental in driving innovation in payments - enabling new business models, creating new use cases and making payments more convenient for consumers. Making and taking payments is much easier and efficient in most cases across Europe due to enhancements in digital payments, mobile wallets, access to accounts and the vast array of alternative payment methods. PSD2 has ensured the safety and security of payments with SCA, and consumers feel more protected.

However, the current process requires moving from one app or website to another during authentication and payment, which adds friction to the customer experience and can be costly to merchants in the event cart abandonment or cancellation.

Perhaps SCA can be enhanced by using biometrics and behavioural science for identity verification. It should be noted that the Financial Conduct Authority (UK) has already accepted behavioural biometrics for SCA.

Q7: Would you say that the benefits stemming from the application of the PSD2 outweigh the costs of its implementation?

To which extent do you (dis)agree with the following statements?

(1: strongly agree; 2: somewhat agree; 3: neutral; 4: somewhat disagree; 5: strongly disagree; 6: don't know/no opinion/not relevant.)

Costs and benefits of PSD2	1	2	3	4	5	6
As a payment service provider, the implementation of PSD2 resulted in higher costs for me	x					

The implementation of PSD2 has led to higher costs						
- for merchants	x					
- for corporates						
- for individual consumers						
I or my company have benefitted from PSD2			x			
The investments required to comply with PSD2 were proportional to its benefits				x		
The benefits related to SCA exceed the costs of its implementation				x		
PSD2 has simplified and reduced the regulatory burden in comparison to the previous framework (PSD1)				x		

EPSM Answer:

Some of the EPSM Members have benefited from PSD2, as PSD2 allows market entrants to offer new services. Nevertheless, it should be noted that the implementation of the SCA requirements have led to immense costs to the industry.

Additionally, EPSM Members faced a high abandonment rate when SCA became applicable. Together with industry partners, EPSM had pointed out the challenges resulting from the short implementation time. Presently, the industry is still working on a number of remaining challenges to get checkout conversion rates to the same level as it has been before.

Considering the statements above, EPSM believes that it takes more time for the industry to benefit from the implementation effort. For all changes to the level 1 text in the future, it needs to be considered that operators of frictionless payment systems that have been built over years need sufficient time to implement regulatory requests.

As the industry itself has an interest in providing consumer friendly, secure and innovative payment solutions, future regulatory measures should only be taken after a close dialogue with the industry and provide sufficient implementation time. For all future regulatory measures, less detailed prescriptive requirements should be considered. Existing and well-established industry standards, such as PCI DSS should be taken into account.

Q12: Do you consider that the definitions in PSD2 are still adequate?

To which extent do you (dis)agree with the following statements?

(1: strongly agree; 2: somewhat agree; 3: neutral; 4: somewhat disagree; 5: strongly disagree; 6: don't know/no opinion/not relevant.)

DEFINITIONS	1	2	3	4	5	6
The definitions under article 4 remain adequate and do not need to be modified					x	

EPSM Answer:

We would like to refer to the EBA statement dated 23 June 2022. A separate discussion with industry representatives seems to be necessary due to the vast volume and the implications of any changes.

Q13.3: Should any of the services listed below be added to the list of payment services in Annex I?

EPSM Answer:

EPSM remains neutral regarding the question if technical service providers or payment processing services should be covered in Annex I. The payments industry with all involved market participants changed as a whole in consequence of PSD2, regardless if directly listed in Annex I or not.

Therefore, it is not clear what benefit the extension of scope would bring. In case the Commission believes the scope should be widened, EPSM strongly suggests that this should only be done after a detailed dialogue with the industry. In any case, precise definitions of the scopes are crucial.

In general, we support most statements by EBA in their paper dated 23rd June 2022.

Q19: Article 10 of PSD2 describes the requirements around safeguarding. Should these requirements be further adjusted?

EPSM Answer:

It should be noted that safeguarding by insurance (option b) seems to have had nearly no practical relevance in the last years. Therefore, the safeguarding by option a) is much more relevant – including access of EMIs and PIs to such safeguarding bank accounts, including

appropriate deposit insurance, in case a bank becomes insolvent. As this topic is complex and important, details vary by country. This needs further analysis and consideration.

Q22: Do you consider that PSD2 is applied consistently, and aligned with other related regulation?

EPSM Answer:

The wording “consent” in PSD2 should be changed or eliminated completely, compared to the meaning of consent” in GDPR to avoid confusion.

For simplification, it should be evaluated to include E-Money Rules into PSD (“Merge EMD2 into PSD”).

Q34: PSD2 includes ways in which the access to accounts can be limited, for instance by an Account Servicing Payment Service Provider (ASPSP).

The following statement has been provided by one EPSM Member. As such, it may not reflect the position of all EPSM Members:

The current legal framework lacks specific PSD2 API standards and there is a case to be made for EU legislation on payments to include a universal API standard. The variety of APIs used by different players adds complexity and is an obstacle to progressing Open Banking. To create a level playing field and encourage innovation, the development of PSD2 API technical standards should be considered. Having a common language and protocol will make the sharing of payment account data between banks and third-party providers more consistent and easier for developers to build compliant solutions. This will facilitate increased interoperability and enable the harmonization of data protection rules.

With respect to SCA, APIs are used when apps interact to validate a customer, a transaction or request confirmation to complete a transaction. The current process requires moving from one app or website to another during authentication and payment, which adds friction to the customer experience. It requires a smart exemption engine (to only request exemptions from acquirers that have agreed to process exemptions from them, or they risk the transaction being declined). Having well designed, powerful and standardised APIs seamlessly integrated into the merchant platforms is the most effective way to provide a more frictionless customer experience. These APIs must be designed with PSD2 protocols in mind, e.g. OAuth 2.0 and multi-factor authentication.

From an Open Banking perspective, both AISPs and PISPs currently structure and format account and payment data differently, sometimes including additional information in the same field. By using standardised open APIs for sharing payment and account information and seamlessly integrating banks with third parties, this will increase efficiency and

interoperability, while also driving innovation and increasing adoption of Open Banking across the financial ecosystem.

The success of Open Banking and Open Finance depends on enabling simple and secure exchange of data between banks and third-party providers to offer fast and convenient digital services to consumers and allow them to make informed decisions.

Ideally, there should be market agreement on one technical specification, though this does not need to be too prescriptive, so that all systems across Europe is ultimately using on one common API standard.

Q45: In your view, are the requirements regarding fraud prevention in PSD2, in particular those on strong customer authentication (SCA), still sufficient?

To which extent do you (dis)agree with the following statements?

(1: strongly agree; 2: somewhat agree; 3: neutral; 4: somewhat disagree; 5: strongly disagree; 6: don't know/no opinion/not relevant.)

FRAUD PREVENTION: STRONG CUSTOMER AUTHENTICATION	1	2	3	4	5	6
The requirements for SCA (Art. 97) are still adequate				x		
SCA has made electronic payments safer			x			
The provisions on SCA do not adversely impact the TPPs' business models						
If you are a PSP, the provisions on SCA did not lead to obstacles in providing payment services towards PSUs ⁸					x	
The provisions on SCA do not leave room for circumvention			x			
The implementation of SCA has not led to the exclusion of categories of customers/citizens				x		
The implementation of SCA did not negatively impact your business				x		

EPSM Answer:

The SCA factors should not be prescriptive, which hampers innovation. E.g., behavioural biometrics should be allowed.

The transaction risk exemption should only be based on the calculated fraud rate for which the respective PSP is solely responsible.

Experience has shown that there are more unattended environments in addition to transport and parking, where the instalment of secure pin pads is not feasible. Therefore, environments like vending machines and charging stations for electronic vehicles should be exempt from the application of SCA.

Furthermore, it should be ensured by the level 1 text that no parts of the society are left behind. PSD2 and the SCA requirements added complexity to payments. The needs of persons with disabilities, elderly people having challenges with technology and those who lack modern devices need to be considered. Consequently, exemptions from the applicability should be allowed for these groups.

EPSM believes that the review of the SCA related topics come too early. SCA has not been implemented for long enough to fully make use of the benefits. More time is needed for the industry to review, reconfigure and adopt all parts of the payment systems to achieve similar conversion rates and a good consumer journey. Only then, a full assessment of the benefits is possible.

Q45.1: The current SCA regime prescribes an authentication via a combination of at least 2 distinct factors, or elements, to be applied in case of payer initiated transactions (see Art. 97(1)). Should any changes be made to the current SCA regime?

EPSM Answer:

Yes, EPSM does not see a need why the two separate, distinct factors need to be from two different categories (knowledge, inherence, possession) as long as the breach of one factor does not comprise the other.

Q46: What is your opinion about the applicable value limit to single contactless payments (without SCA)?

EPSM Answer:

The limit should be higher than 50 EUR (for a single transaction)

The limit should be higher than 150 EUR (for the cumulative amount)

The limit to transactions should be higher than 5 consecutive transactions

During the pandemic it has proven beneficial that physical contacts are reduced to a minimum. EPSM is not aware of a significant growth of fraud due to the increased use of contactless payments. Considering the inflation rate in Europe, an increase to 100 EUR per

transaction and 300 EUR cumulative limit should be allowed. The decision, if higher limits are granted, should be up to the issuer.

Q56: Are there any other issues that have not been raised in this questionnaire that you think would be relevant for the review of PSD2 and its possible revision?

EPSM Answer:

The recent paper issued by EBA, dated 23 June 2022, gives a good analysis of many topics – and EPSM supports most of EBA's statements. Unfortunately, a detailed feedback by EPSM to the 126 pages EBA paper is currently not possible due to capacity and time reasons.

General EPSM Feedback:

One of the major issues of implementing PSD2 and related RTSs was the time schedule. PSD2 and RTS are regulating a very complex matter, which – in the case of the payment card schemes – has been built over decades. To change an existing multifaceted system, sufficient time is needed to avoid disruptions.

As mentioned above, there are still areas, in particular in remote card payments, where additional work is needed to establish the same good consumer experience for all payment types as in the past. Therefore, EPSM believes that changes, which lead to additional requirements for PSPs, should only be considered, if it is ensured that the benefits outweigh the effort of the industry.

To ensure this and to respect the work the payments industry has undertaken – irrespectively of regulatory input, in the interest of a frictionless payments to the benefit of merchants and consumers alike – a close dialogue between regulator and industry is strongly suggested for any measure.