Vision „Digital Payments 2020“

Association of German Banks

January 2017
Preliminary note

The following document presents recommendations towards potential legislative amendments and the application of future regulation for payments in the European Union.

These recommendations are based on the perspective of the Association of German Banks (Bundesverband deutscher Banken, BdB) and its members, and have been developed in collaboration with the management consultancy A.T. Kearney in autumn 2016.

This industry point-of-view is meant to foster the short- to mid-term modernization and digitization of payments in Europe, benefitting consumers and contributing to growth and innovation objectives in the Digital Single Market.

This discussion paper is aimed at European and national legislating authorities as well as at other national banks and bank associations.
Agenda

- Status quo & challenges
- Fields of innovation, competition and regulation
- Outlook & next steps
Financial services as a major precondition for Digital Single Market in Europe

Digital Agenda 2020 – EU objectives & status quo

EU-level

Europe 2020 – 7 key objectives
Fostering growth and employment in Europe in 2020

1st key objective – Digital Single Market
Free movement of goods, capital, services and people

Green paper on retail financial services
At the end of 2015, the EU Commission delivered the green paper depicting the following objectives for the financial services industry:

- Increasing competition
- Improving transparency
- Enhancing the choice of financial services

Consumers

Country-level

- Translation of PSD2 into national legislation
- Translation of the General Data Protection Regulation (GDPR) into national law
- BaFin memo on video ID procedures (May 2016)
- Application of MaSi by BaFin based on SecuRe Pay (EBA)
- eIDAS regulation
- And others

1. The Digital Single Market is intended to contribute EUR 416 bn to the economic performance, stimulate the job market, and foster growth, competition and innovation. 2. Using the example of payments as a financial service.

Source: European Commission, project team
Digital Payments as door opener for innovation and competition efforts across the Single Market

Role of payments for financial services

Account services
Additional services (e.g. via XS2A)
Insurances
Call money
Savings plan
Consumer credit

Digital Onboarding & Payments in Europa

Reliable standards for consumers, regarding costs, security & liability as well as use of their personal data for Onboarding and Digital Payment products & services, are a prerequisite for a digital single market for financial services.

XS2A = Access-to-Accounts
Source: project team
Various requirements of all stakeholders towards Digital Payments 2020 in Europe

**Retailers/ Businesses**
- Conversion
- Free choice & reach
- Customer identification & data
- Transaction cost reduction

**Consumers**
- **Choice:** free choice of payment methods
- **Control:** security & transparency
- **Comfort:** efficient onboarding
- **Cost:** affordable payment methods

**Banks & other PSPs**
- Access to customers
- Fair competition
- Cash disbursement
- Infrastructure access / security

**Regulator**
- Digital Single Market for FS
- Stimulation of competition
- Consumer protection
- Security

**Beneficiaries of ‘SEPA 1.0’**

**Focus of ‘SEPA 2.0’**

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FS = Financial services; PSP = Payments service provider
Source: project team

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Potential for increased consumer benefit and growth stimulation in P2P, POS and E-Commerce

Payment behavior: Example Germany

Currently high share of cash & need for innovation
Important role for Mobile & Instant Payments

~800 yearly payments per capita

POS = Point-of-Sale; P2P = Person-to-Person
Source: A.T. Kearney analysis based on various sources (e.g. Deutsche Bundesbank ‘Payment behavior in Germany in 2014’)
From a consumer and retailer perspective there are several limitations of Digital Payments today

### Today’s user experience

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Onboarding</td>
<td>Often <strong>time-consuming, redundant und internationally diverse requirements</strong> for registration and KYC/ identification</td>
</tr>
<tr>
<td>Standard payments</td>
<td><strong>Overall fast and cost-efficient methods available</strong> with SEPA direct debits and credit transfers, long IBAN numbers constituting the only convenience downside</td>
</tr>
<tr>
<td>Retail/POS</td>
<td><strong>Frequent limitations for consumers to use noncash methods</strong>, while retailers need to comply with laws on <strong>mandatory acceptance of cash</strong></td>
</tr>
<tr>
<td>E-Commerce</td>
<td><strong>Increased bundling of retail and payment services</strong> by platforms/ online marketplaces leading to a discrimination of payment methods that <strong>limits the possibility for customers to use other preferred methods</strong></td>
</tr>
<tr>
<td>Mobile payments</td>
<td>New providers (e.g. OEMs, operating systems) <strong>compel customers to use their proprietary methods</strong> and business models; also, a lack of transparency raises the question: “<strong>When is data used as a currency?</strong>”</td>
</tr>
<tr>
<td>P2P payments</td>
<td>Different payment methods currently emerging, but still <strong>insufficiently integrated</strong> and reachable</td>
</tr>
</tbody>
</table>

Source: project team
What will Digital Payments 2020 be like in Europe?

Vision: A day in the consumer’s life

Using mobile devices for retail purchases and receiving digital invoices

Coffee machine ordering beans autonomously

Contactless payment of the metro ride

Sharing the lunch bill by wiring directly from paydirekt to paylib

Using paydirekt to pay for an online purchase

Paying the doctor’s bill with an app & approving without authorization

Receiving an automatic financing offer while ordering the kitchen

Investing in an Irish call money account with only one click

Transferring pocket money instantly to the kids’ e-wallets

Withdrawal at an ATM in Rome

NEW Not possible (or common) today

Source: A.T. Kearney
Action required in relevant fields to realize the vision of Digital Payments 2020

Moving from ‘SEPA 1.0’ to ‘SEPA 2.0’

Today

• ‘SEPA 1.0’ was mainly beneficial for retailers and businesses and enabled, amongst others, (1) EU-wide consolidation of accounts and (2) increased cross-border choice of service providers.

Tomorrow

‘SEPA 2.0’

• Offline retail (POS) and person-to-person (P2P) transactions harbor the greatest potential for Digital Payments. In these situations cash remains the main means of payment. In fact, consumers often don’t even have the choice of using a noncash instrument. M-Payments in combination with Instant Payments play an essential role to leverage this potential.

• This choice of payment methods is also constrained in E-Commerce where large providers of online marketplaces bundle platform and payment services.

• Despite the steadily progressing Cash displacement, the need for efficient and nationwide cash disbursement remains.

• Another major challenge is to enable consumers to access new Digital Payment services in a secure, convenient and digital way (Onboarding).

Source: project team
Need for action in five areas

Fields of innovation, competition and regulation

<table>
<thead>
<tr>
<th>M-Payments</th>
<th>E-Commerce</th>
<th>Instant Payments</th>
<th>Cash</th>
<th>Onboarding</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Essential infrastructure</td>
<td>• Data-based business models</td>
<td>• Complementary use cases</td>
<td>• Legal tender</td>
<td>• Geoblocking</td>
</tr>
<tr>
<td>• Access and reachability</td>
<td>• Liability</td>
<td>• Authorization and security</td>
<td>• Anonymous payments</td>
<td>• Registration/Identification</td>
</tr>
<tr>
<td>• Security</td>
<td>• Free choice (unbundling)</td>
<td>• Efficient cash disbursement</td>
<td>• Efficient cash disbursement</td>
<td>• All-digital</td>
</tr>
</tbody>
</table>

Leveraging the potential of Digital Payments
Increase the economic benefit through innovation and competition

Source: project team
Agenda

- Status quo & challenges
- **Fields of innovation, competition and regulation**
- Outlook & next steps
P2P and POS payment situations can be solved more efficiently with M-Payments

Summary

Suggestions & recommendations

- **M-Payments**
  - Essential infrastructure
  - Access & reachability
  - Security

All payments service providers shall be able to access the **technology components**, e.g. for authentication (e.g. fingerprint scanner) or data transmission (e.g. NFC, Bluetooth Low Energy), that are required for M-Payment solutions.

Mobile payment methods should be **open to all EU customers** (no geoblocking); a **central registry should ensure interoperability** and reachability between methods.

**Consumer trust in Digital Payments should be increased through** (1) minimum security standards for mobile devices and (2) consumer-friendly, alternative forms of strong authentication (e.g. passive methods based on behavioral data).

Source: A.T. Kearney, project team
Access to essential infrastructure will foster the availability of payment services

**Essential infrastructure**
(Example: transmission technology; smartphone market share Western Europe 2014)

- Consumers shall have the possibility to use the payment *app of their choice in combination with the mobile device of their choice*
- This is possible with Android devices (e.g. Samsung and others); however, with iOS devices, consumers have no other choice but to use ApplePay
- **Consumers shall** freely select the payment app of their choice and **not be limited by any given manufacturer** of essential infrastructures
- The definition of essential infrastructures and an applicable usage fee shall be set and adjusted (on the basis of market penetration) by an appropriate authority on a regular basis
- In addition appropriate investment protection shall be granted to payment service providers
- **Oligopolistic patterns** for essential infrastructures shall be avoided by antitrust measures

NFC not accessible for all payment Apps

1. E.g. transmission technologies, authentication methods, processing and storage components and other security functions

Source: IDC, project team
Increase of payment services for consumers through cross-border access and reachability

Reachability of different payment methods

- Both consumer travel and consumption is becoming increasingly cross-border; thus mutual reachability among different payment services (independently from consumers’ or providers’ location) is highly recommended

- Consumers have neither unlimited access to other payment services nor are they able to use them without being registered

- A central registry for all mobile payment services, that maps credentials (e.g. phone numbers) to account numbers and thereby enables mutual reachability, is the most efficient solution and superior to other options such as an EU wide (one size fits it all) mobile payment solution or standardized APIs

- Reachability shall be granted on an EU level (similar to SEPA)

Source: project team
Consumers shall be able to use digital payments securely and more conveniently

Elements for more security

**Device Security**
- Consumers should be relieved and less responsible for keeping their devices secure
- At the same time, the security level of end-user devices shall be increased

**Authentication**
- Consumers are permanently authenticated through sensor features on their devices (e.g. by using biometrics)
- Strong customer authentication is becoming more secure and more user friendly

**Measures**
- Definition of minimum security standards
- Obligation of manufactures to guarantee security standards for a given time at no cost

**Target Picture**
- Modernization and extension of SecuRe Pay with additional strong & user friendly procedures
- ‘Level-Playing-Field’: Common requirements for banks and non-banks for initial and follow-up authentication processes
- Behavioral data constitute very strong authentication characteristics that shall be allowed to be used

Source: project team
Consumers shall benefit from more freedom of choice and fair competition among methods

Summary

Suggestions & recommendations

All PSPs\(^1\) shall be allowed to apply alternative business models (e.g. based on fees and/or data) under same conditions; for this purpose, providers shall be assigned to different business model categories, disclose the consequences of data usage & ask for customers’ consent.

Consumers shall get explicit and transparent information on duty of care and liability rules related to Digital Payments; in light of access to accounts by third parties (as specified by PSD2), banks should receive legal clarity regarding liability.

Consumers and retailers shall be able to select the most attractive payment method based on cost, convenience and/or security criteria in a non-discriminatory way. In particular, online marketplace providers should not constrain this freedom of choice\(^2\).

Mobile payment methods should be open to all EU customers (no geoblocking); a central registry should ensure interoperability and reachability between methods.

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1. Payment service providers
2. E.g. through bundling of platform and payment services

Source: A.T. Kearney, project team

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See analysis in chapter ‘M-Payment’, point 2
Consumers shall be both more aware and in control of when they pay with their personal data

Data-based business models

- Banks and other PSPs are obliged to inform and explain the nature of the operation in the T&C and separate Privacy Statements. From a legal point of view, all parties should act in a consistent way.
- In practice however inequality prevails: Consumer consent is obtained as one step of many during the registration and is thus often not actively noticed by consumers.
- Providers shall be assigned by the banking authority to different business model categories regarding their use of consumer data:
  a) For business processing only
  b) For additional internal purposes
  c) (Commercial) transmission to third-parties
- In payment services with commercial data usage, consumers shall be explicitly informed about consequences outside the T&C and Privacy Statements e.g.:
  (i) By disclosing the business model category via a label, or (ii) through their separate, explicit and revocable consent.

✓ x: Access and use of data approved/ not approved

1. Payment service providers  2. Amazon, Google, Facebook, Apple  3. Terms & Conditions
Source: project team
Transparent rules for duty of care & liability shall facilitate consumers use of Digital Payments

Duty of care and liability with Digital Payments (1/2)

- **Consumers** use different Digital Payment methods and are fully responsible for keeping all their private credentials confidential

- The growing number of payment service providers has an **impact on the scope of consumers duty of care & the liability** for banks

- **Clear and transparent duty of care requirements** (similar to ‘PIN & TAN’) help consumers to enjoy a **safe environment** when dealing with multiple new service providers (especially AISP and PISP\(^1\))

- **Distinct and transparent rules** regarding liability and its limitation create and strengthen **consumers trust** in digital payment methods

- To increase **consumer trust**, providers shall commit to disclose data breaches within appropriate time frames

- **Clear rules for the definition of a liability insurance** for AISPs and PISPs are necessary

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1. AISP = Account Information Service Providers, PISP = Payment Initiation Service Providers
Source: project team
Consumers and banks shall benefit direct and indirect from distinct liability rules

Duty of care and liability with Digital Payments (2/2)

- The growing number of PSPs\(^2\) has an impact on the scope of consumers duty of care & especially the assumption of liability for banks
- Distinct and common liability rules are not yet in place for all players especially AISPs and PISPs
- Distinct liability rules in case of damage (e.g. through fraud or by mistake) shall increase consumer trust in digital payment services
- Third-party PSPs (e.g. AISP & PISP) with access to account shall be entitled to obtain a general liability insurance; scope (e.g. minimum amount covered) to be defined
- This insurance coverage shall be a prerequisite for the access rights of third-party service providers and shall ensure a full compensation of the account holding bank for damages caused by third-party service providers
- Further it shall be ensured that banks are able to differentiate between the consumer and the third party accessing to account

Who owns the client relationship & who is liable (to what extent) in case of damage?

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1. AISP = Account Information Service Providers, PISP = Payment Initiation Service Providers
2. Payment service provider

Source: project team
The consumer’s options for online payment services shall not be limited any longer

**Competition of payment methods: Example E-Commerce**
(Online retail sales 2015, Germany, in bn Euro)

- E-Commerce marketplaces have a high relevance for consumers; similarly, retailers are nowadays dependent on certain E-Commerce platforms for selling their products and should therefore not be restricted in the choice of their payment method.

- In certain instances, this choice however is limited; the available payment methods are dictated by the platform, and the competition is thus impaired:
  - Retailers are only allowed to offer payment methods that marketplaces allow them to offer.
  - As such, consumers are directly affected by that limitation of payment methods offered.

- In fact, consumers and retailers should benefit from a fair competition; relevant e-commerce platforms shall:
  - Cease restricting available payment methods for retailers and consumers respectively.
  - Not discriminate other payment methods when offering their own platform based payment method.

Source: BEVH, project team
Instant Payments address consumer needs in specific payment situations

Summary

Suggestions & recommendations

Instant Payment systems should **not be universally and mandatorily available for all payment situations**; they should only replace D+1 SEPA methods in situations where consumer needs are currently not sufficiently met (e.g. P2P, POS).

Any system that provides instant authorization (but not necessarily instant clearing and/or settlement) **should be considered an Instant Payments system**; this definition shall enable the development and co-existence of alternative systems.

*From a market perspective no regulatory intervention is needed – development of alternative Instant Payments systems will still be possible –*  

*Suggestions and recommendations are meant as a guidance for the (currently ongoing) development of the pan-European Instant Payments system***

Source: A.T. Kearney, project team
Instant Payments are relevant alternatives for consumers in P2P and POS payment situations

Relevant use cases

- **Problems for corporate and administrative bodies as well as recurring payments have been covered sufficiently through ‘SEPA 1.0’ with no further demand**
- **There are other payment situations where there is significant consumer demand for Instant Payments**
- **Instant Payment is an important, though not mandatory alternative, esp. for P2P payments**
- **In POS situations it provides a settlement alternative behind card payments**
- **The provision of Instant Payment solutions should not be compulsory for all payment situations**
- **Beside the initiated pan-European solution SCTinst it should still be possible to develop alternative solutions within the industry**
- **To foster use & acceptance of Instant Payments, cross-border and cross-system access and connectivity of different payment systems should be ensured (e.g. use of a central registry)**

Source: project team
From a consumer and bank perspective a pragmatic implementation is recommended

### Options for the implementation of Instant Payments

**Option 1: 'Instant Authorization’**

<table>
<thead>
<tr>
<th>Only authorization</th>
<th>Only authorization(^1) is carried out instantly; delays for clearing &amp; settlement remain the same</th>
</tr>
</thead>
<tbody>
<tr>
<td>Availability of funds for payees</td>
<td>Funds are accessible D+1; potential risk of unfunded charge backs given</td>
</tr>
<tr>
<td>Security of payers</td>
<td>In theory, and when justified, a charge back before clearing &amp; settlement is possible but only with high manual effort</td>
</tr>
<tr>
<td>Impact</td>
<td>Investments necessary, but on a low level compared to option 2</td>
</tr>
</tbody>
</table>

**Option 2: „Instant Authorization, C&S”**

<table>
<thead>
<tr>
<th>Everything, i.e. authorization, clearing &amp; settlement is carried out in real-time</th>
<th>Everything, i.e. authorization, clearing &amp; settlement is carried out in real-time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Availability of funds for payees</td>
<td>Funds are accessible right after execution of the transaction</td>
</tr>
<tr>
<td>Security of payers</td>
<td>No chargeback possibility, transaction is final, i.e. irrevocable; especially in case of compulsory use for all payment situations</td>
</tr>
<tr>
<td>Impact</td>
<td>Significant investments necessary for the banking industry; significant changes for system and schemes respectively; multi year implementation phase likely</td>
</tr>
</tbody>
</table>

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1. With interbank guarantee

Source: project team
More freedom for consumers and retailers when choosing payment methods

Summary

<table>
<thead>
<tr>
<th>Cash</th>
<th>Suggestions &amp; recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal tender</td>
<td>Widely used noncash payment methods (e.g. credit transfer, direct debit, debit card) should be assigned the status of legal tender.</td>
</tr>
<tr>
<td>Anonymous payments</td>
<td>Consumers shall have the possibility to use noncash payment methods at the POS without transferring personal data to the payee (i.e. the retailer).</td>
</tr>
<tr>
<td>Efficient cash disbursement</td>
<td>Consumers shall continue to have inexpensive and close access to cash (e.g. also at gas stations, supermarkets); for that, banks should be able to develop extensive partnerships (both multi-bank &amp; with third parties) e.g. through suspension of antitrust approval barriers.</td>
</tr>
</tbody>
</table>

1. Unless the transmission is necessary (e.g. to enable charge back)
Source: A.T. Kearney, project team
Extension of ‘Legal Tender’ scope provides more payment flexibility for consumers and retailers

**Extension of Legal Tender definition**

- Consumers and retailers shall be able to use the payment method of their choice in every situation.
- Today, neither consumers nor retailers can freely choose their preferred method of payment in every situation; retailers are obliged to accept cash (Legal Tender)\(^1\), irrespective of the related costs – these can amount to up to 4% of the transaction costs\(^2\).
- To solve this situation, the **Legal Tender definition has to be extended**; other popular and widely accessible noncash payment methods can be deemed to have legal tender status as determined by the European central bank from time to time (e.g. SEPA Cards, SCT, SDD).
- **Retailers should consequently be free** to choose in which situation they want to accept one or more payment methods that enjoy legal tender status (irrespective of whether it is a cash or noncash payment method).

1. For as long as nothing else has been agreed between the parties before signing of the contract (e.g. explicit notification of the retailer)
2. E.g. caused by costs related to, amongst others, handling of cash, vandalism, robbery and theft

Source: A.T. Kearney survey, project team
Consumers shall be able to pay noncash without transmitting personal data to retailers

Transmission of customer data in POS situations

Privacy concerns of consumers\(^1\) shall be addressed; opportunities should be created to allow secure and anonymous noncash payments for consumers, i.e.:

- **No transmission of personal customer data to retailers** (i.e. no payer identification) – a theoretical functionality that is provided by paydirekt as of today
- This shall however (in contrast to digital currencies) **not impact the transmission of personal data to the bank**\(^2\)

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1. E.g. to reduce consumers digital footprint
2. As such AML requirements are not being impaired

Source: project team
Banks shall be able to develop wide partnerships for efficient cash disbursement to consumers

Development of ATM cash withdrawals
(# withdrawals per capita, 2006-2024F)

- In some EU countries the increasing use of noncash payments is accompanied by a reduction of cash withdrawals
- Despite deteriorating economics, an efficient & nationwide cash disbursement should still be guaranteed to consumers
- To ensure an efficient and nationwide cash disbursement, banks shall be able to explore alternative ways such as closing extensive partnerships through:
  - Reducing regulatory requirements (e.g. licenses etc.); promoting cash disbursement through the use of retail networks
  - Suspension of antitrust approval barriers for multi-bank operations of ATM networks
- The charging of cash disbursement services should not be impacted by the above suggestions

Source: German Central Bank, ECB, A.T. Kearney Payments Market Model 2016, project team
Standardize and digitize KYC procedures for easy access to digital payments for consumers

Summary

<table>
<thead>
<tr>
<th>Onboarding</th>
<th>Suggestions &amp; recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geoblocking</td>
<td><strong>a)</strong> As long as technically possible with reasonable efforts, consumer access to service providers should not be limited by the consumer’s location; <strong>b)</strong> Financial service providers shall receive EU-wide, cross-border access to national credit agencies.</td>
</tr>
<tr>
<td>Registration/ Identification</td>
<td>Consumers shall go through a one-time only identification/ KYC procedure at their bank (‘trusted party’); third party service providers that are obliged to identify their customers should be allowed to use the trusted party’s data (whilst remaining liable for data accuracy and possibly being charged an appropriate fee by the trusted party).</td>
</tr>
<tr>
<td>All-digital</td>
<td>Consumers shall be able to use digital payment methods end-to-end, i.e. from the initial registration with digital identification, to digital usage, contract administration and KYC renewal, in a fully digital, paperless way.</td>
</tr>
</tbody>
</table>

Source: A.T. Kearney, project team
Consumers & providers shall benefit from cross-border offers and usage of payment services

**Forms of cross-border access limitations**

<table>
<thead>
<tr>
<th>Geography</th>
<th>Geoblocking:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>French offers are not displayed to German consumers</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Content</th>
<th>Access limitation:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Italian bank cannot access data on Belgian customers at their bank and credit bureau</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Contract</th>
<th>Country discrimination:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Access to Spanish payment services requires a residence in the service provider’s country</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Technology</th>
<th>Interface issues:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Austrian bank cannot connect to paydirekt</td>
</tr>
</tbody>
</table>

- Consumers seek **non-discriminatory access to payments services**, independently from their location or country of residence.
- Today, most of the consumers in the EU cannot benefit from non-discriminatory access.
- Providers shall create the **necessary conditions** so that banks and other payment service providers can **connect to the existing system**
- In particular, users shall not be excluded through **technical or contractual discrimination** from payments with services from another EU country.
- For cross-border services, consumers should be identified according to the **standards of their country of residence or of the provider’s country**.
- In the mid- to long-term, conditions shall be created to enable **pan-European offerings**.
- In addition, **credit histories and bureaus should be harmonized** on a European level in the mid term.

1. This does not mean that service providers have an obligation to offer their products in all EU countries
2. The issue of content/ browser geoblocking is already addressed in the Green Paper (not the missing possibility for consumers to close cross-border contracts though); Source: project team
Follow-on use and reuse of existing identification data shall ease the onboarding for all parties

**Third-Party access to Identity and KYC data**

- Based on current requirements, consumers have to undergo a full identification and KYC procedure for each new service provider they want to use; there is no possibility to ‘re-use’ existing identity and KYC data.
- Banks/service providers that are required to identify their customers shall be able to mutually recognize and exchange existing identity and KYC data internationally:
  - Consumers shall have the possibility to mandate third-party service providers (that are required to identify their customers) to retrieve and use existing data from their bank that act as a trusted party.
  - **Banks shall not be liable** for shared identity and KYC data (regarding integrity and accuracy).
  - **European standard for identity and KYC procedures** required (esp. minimum information requirements).
- Trusted parties shall be allowed to require a compensation for sharing KYC data.

Source: project team
Consumers shall be able to participate to payment services in a fully digital and paperless way

### Degree of digitization of onboarding procedures

<table>
<thead>
<tr>
<th>Written form for initial identification</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Physical last step (e.g. signature)</td>
</tr>
<tr>
<td>• Impeded video legitimation</td>
</tr>
<tr>
<td>Ø 7.5 days until the 1st credit transfer is possible</td>
</tr>
<tr>
<td>Ø 11 days until the 1st credit card payment is possible</td>
</tr>
<tr>
<td>Ø 10 changes of channel during the onboarding</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Universally paperless usage possible</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Fully digitized payments both online (e.g. card) and offline (e.g. credit transfer)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Follow-on identification (often in written)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Partly required for overdraft facilities</td>
</tr>
<tr>
<td>• Useful for PoA (power of attorney)²</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Archiving &amp; documentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Paper-based archiving and documentation (e.g. account statements, tax declaration)</td>
</tr>
</tbody>
</table>

- Consumers can already use many fully digital onboarding and identification procedures (e.g. N26)
- In some situations though, frequent media disruption hinders the use of fully digitized procedures
- The EU-wide **harmonization of minimum requirements for digital identification** represent an important contribution to the Digital Single Market
- Subsidization of the industry to develop innovative, software-based identification procedures (e.g. biometrics, artificial intelligence)
- **Follow-on identity and KYC data** shall be pre-recorded or retrieved from trusted third parties
- Requirements towards **paper-based documentation and archiving** shall be replaced by alternative electronic solutions

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1. Cf. BaFin memo 04/2016 on video identification procedures
2. PoA example: ‘Good faith’ exclusively based on paper-based, original documents

Source: Bank-Blog, project team
Agenda

- Status quo & challenges
- Fields of innovation, competition and regulation
- Outlook & next steps
The BdB considers five measures to be highly relevant for Digital Payments

Implementation of concrete, prioritized measures

1. Registration/Identification
2. Legal tender
3. Data-based business models
4. Free choice (unbundling)
5. Essential infrastructure

Digital Payment 2020

Creating a common ground for mobile and E-Commerce payments in Europe

Free choice of payment methods for consumers and retailers in every payment situation

Access to and use of cash and noncash payment services under the same conditions

Source: project team
The five prioritized measures can be broken down to detailed action items

### Measures: detailed action items

<table>
<thead>
<tr>
<th>Measure</th>
<th>Detailed action items</th>
<th>Potential instrument</th>
</tr>
</thead>
</table>
| **1 Registration/Identification** | • Definition of European identification standards  
                                    • Enablement of the re-use of existing identity and KYC data | • Next AML Directive                                            |
| **2 Legal tender**             | • Extension of the scope of legal tender to widely used and SEPA based noncash payment methods | • TFEU art. 128 (1)  
                                    • Regulation 974/98/EC article 10+11                           |
| **3 Data-based business models** | • Definition of different business model categories  
                                    • Allocation of PSPs to one of the business model categories  
                                    • Explicit disclosure of data usage for the benefit of the consumer | • Amendment to the GDPR and/ or next PSD as well as EBA consultation on XS2A-Standards |
| **4 Free choice (unbundling)**  | • Identification of dominating providers of online-market places  
                                    • Mandatory commitment to provide retailers with free choice of payment methods (no bundling of product and payment) | • New DG COMP initiative                                      |
| **5 Essential infrastructure** | • Definition of essential infrastructures  
                                    • Obligation of manufactures to provide access there to  
                                    • Investment protection for PSPs through ensuring standards | • New DG COMP initiative  
                                                                                     • Next PSD                                                        |

PSP = Payment Service Provider  
Source: project team
**Direct benefit results to all stakeholders involved**

### Stakeholder’s benefit

<table>
<thead>
<tr>
<th></th>
<th>Consumers</th>
<th>Banks &amp; other PSPs</th>
<th>Retailers/ Businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Registration/ Identification</td>
<td>One-time full digital identification, that other third parties can rely on</td>
<td>Reduced process costs and better use of APIs</td>
</tr>
<tr>
<td>2</td>
<td>Legal tender</td>
<td>Free choice of payment method, according to individual preference</td>
<td>Fostering SEPA and other, widely used noncash payment methods</td>
</tr>
<tr>
<td>3</td>
<td>Data-based business models</td>
<td>More transparency and control over usage of personal data</td>
<td>Fair competition and universally applicable conditions for all PSPs</td>
</tr>
<tr>
<td>4</td>
<td>Free choice (unbundling)</td>
<td>Customer can use preferred online payment method in non-discriminatory way</td>
<td>Fair competition of online payment methods and PSPs</td>
</tr>
<tr>
<td>5</td>
<td>Essential infrastructure</td>
<td>Free choice of methods, independently from device manufacturer or type</td>
<td>More flexibility and reach when developing own payment methods</td>
</tr>
</tbody>
</table>

PSP = payment service providers  
Source: project team