

The Future of Payments in Europe: Trends in Technology and the EU Legislation Framework Underway

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Agenda

- Latest trends in Payments Technology
- Some Examples of Innovative Products
- Alternative Payments
- Challenges
- The EU Legislation Underway:
 - AML
 - Basic Account
 - Cybersecurity
 - Data Privacy
 - Payments Package
- A Few Words on TTIP

A. Latest trends in Payments Technology

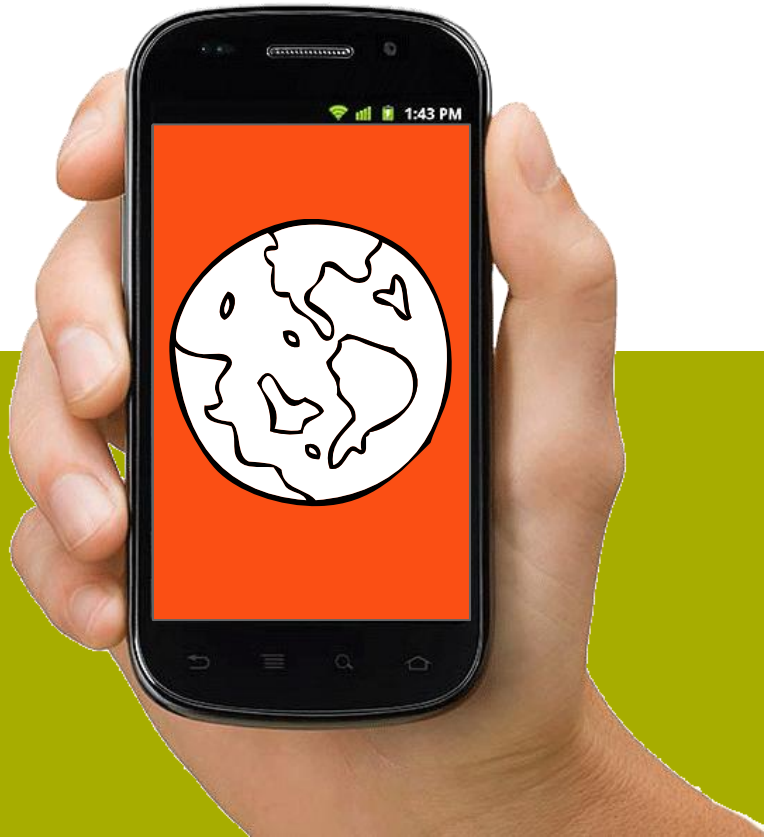
A young man with dark hair, wearing a dark sweater over a striped collared shirt, is smiling and looking down at a smartphone he is holding in his right hand. The background is a blurred indoor setting with large windows.

Do you wonder?

How are

REAL CONSUMERS

dealing with all the
changes happening
in our industry?



That's why we've been doing some
very interesting consumer research.

Nearly **4,000** global "middle class"

smart, smarter, smartest

leads

China, Singapore and Middle East lead in smart phone adoption

lags

Germany, Brazil and Poland lag in smart phone adoption



usage

UK leads in usage of mobile retail apps, compared with other European countries

80%

Of global **Millennials** use smart phones

1. Seek Seamless

53%

Want seamless experiences

62%

Check online before going to store

65%

Have retailer apps on phone

45%

Use phone in-store to comparison shop



2. More than a Transaction



**My time is
valuable**

Speed up the checkout!

53%

Easy

If technology is not easy the
first time, I stop using!

45%

Know me!

Hope marketers get better
at tailoring offers and ads

48%

3. Social and Sharing

56%

Use social media
prior to a purchase

50%

Post reviews



47%

Prefer
companies that
are smart about
social media and
technology

B. Some Examples of Innovative Products



Pogo>® lets you accept major credit, signature debit cards and cash with your smartphone or tablet. It's fast, secure, and easy to use. Whether you sell at trade shows, stadiums or festivals, give in-home parties, or make deliveries, Pogo> makes it easy for your customers to pay with a credit or signature debit card.



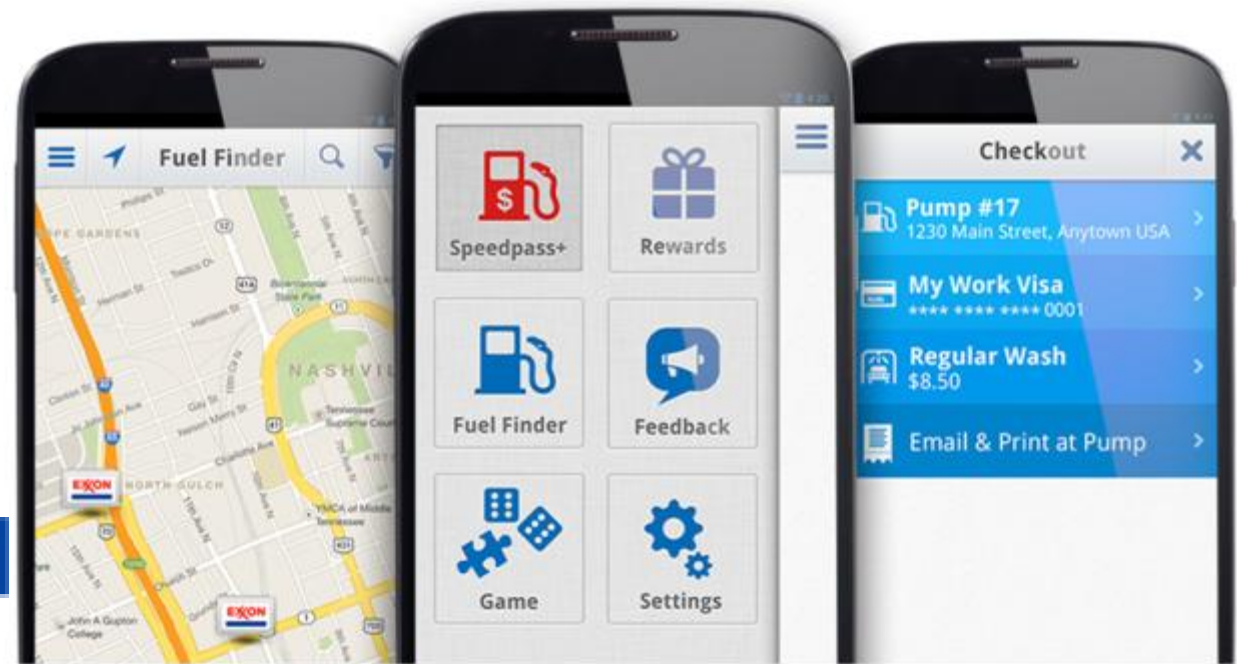


PLAY VIDEO <http://bcove.me/zambpxbc>



Speedpass+™

PLAY VIDEO <http://www.youtube.com/watch?v=6pK66-3XT4I>



C. Alternative Payments

Alternative Payments

- Originated in eCommerce to describe payment alternatives to national debit cards which could not be used online.
- Term used to describe forms of payment that are not cash or card and include ACH and even money alternatives.
- 230+ alternative methods of payment – 50 to 70 in Europe.
- Highly fragmented market. Non-bank sector developing without standards or best practices.

Samples of Alternative Payments



- Prefunded digital wallet targeted at those without a credit card. Can send and receive money transfers by using just an email address



- The PayPal eWallet can be pre-funded, pass-through or funded via two funding sources – cards and ACH



- Ukash allows consumers to pay online by exchanging cash for a voucher



- Neteller eWallet can be funded from a number of sources, including local solutions such as iDEAL, Sofort and Giropay, also by vouchers e.g. Ukash



- ClickandBuy eWallet can be funded using various payment methods including bank transfer and direct debit



- Direct eBanking Schemes – Online banking service based on CTs that supports eCommerce



- Primarily in Germany as ELV/OLV . Not often replicated in other markets as an eCommerce AP



D. Challenges

CHALLENGES

- AML
- Right to a basic account
- Cyber security
- Privacy
- Transparency and fairness of fees
- Fraud detection
- Supervision of new players
- Level playing field
- Non-bank access to a current account
- ...

E. The EU Legislation Underway

1. AML & Terrorist Financing

- On 5 February 2013, the European Commission published two proposals to reinforce existing rules on anti-money laundering and funds transfer:
 1. Proposal for a “Regulation on information accompanying transfers of funds” revising Regulation (EC) No 1781/2006 on information on the payer accompanying transfers of funds.
 2. Proposal for a “Directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing” (4th AML Directive), revising Directive 2005/60/EC of 26 October 2005 (3rd AML Directive).

1. AML & Terrorist Financing

Package was split and the focus is on the 4th AML Directive targeting:

- Consistency between EU and international approach.
- Implement into the EU law the most recent (February 2012) Recommendations of the Financial Action Task Force (FATF).
- On certain issues, i.e. scope (inclusion of gambling, reducing customer due diligence thresholds for traders in high value good for cash transactions), the proposal expands the initial FATF requirements and provides additional safeguards.

2. Basic Bank Account Directive

- On 8 May 2013, the Commission published its proposal for a “Directive on the transparency and comparability of payment account fees, payment account switching and access to a basic payment account”.
- Purpose is to make bank/payment accounts cheaper, more transparent, accessible to all.
- European banks can already operate cross border but consumers are often hindered by fees and other formalities.
- 58mm consumers above 15 years old have no bank account.
- Bank account is essential as the use of cash is declining.

2. Basic Bank Account Directive - Objectives

- Comparability of payment account fees: easier for consumers to compare fees charged for payment accounts by banks and other PSPs in the EU (PSPs need to provide a series of documents on fees and a national website will have a comparison list);
- Payment account switching: simple and quick procedure for consumers who wish to change their payment account to another bank or PSP (within 15 days -30 days if the switch is made between providers located in different EU countries- service free of charge);
- Access to payment accounts: allow EU consumers to open a payment account, without being residents of the country where the PSP is located. Allow all EU consumers, irrespective of their financial situation, to open a payment account for essential operations.

3. Cybersecurity

- On February 7, 2013, the European Commission published an EU cybersecurity strategy and a draft EU Network and Information Security Directive intended to ensure a high common level of network and information systems security.
- Note that on February 12, President Obama instructed several executive departments of the United States Government to take certain steps intended to enhance the cybersecurity of critical infrastructure in the US.
- “Big Data”, “Internet of Things”, “Cloud computing”... More to come on both sides of the Atlantic!

4. Draft EU Data Privacy Regulation

- Replacing Directive 95/46/EC “on the protection of individuals with regard to the processing of personal data and on the free movement of such data”.
- One of the most controversial legislative proposals
- Negotiated over almost 2 years (published on 25 January 2012) with 4.000 proposed amendments.
- Approved by the LIBE Committee in October.
- Adoption postponed to 2015?

4. Draft EU Data Privacy Regulation - Benefits

- Harmonisation of privacy rules across the EU
- “Lead DPA” for corporations
- Recognition of BCRs (controllers and processors) across the EU

4. Draft EU Data Privacy Regulation - Issues

- All companies processing data of more than 5.000 individuals must appoint a DPO
- Fines of 5% of global annual turnover or 100MM whatever greater
- Unclear liability regime: joint and several liability of multiple data controllers and processors
- Procedure for clearance with EU officials where EU citizens' data is involved in a request from foreign government authorities.
- Business best practices of the financial sector not taken in consideration (i.e. data portability, right to be forgotten) .
- Important tools for businesses (i.e. profiling) limited to circumstances where data subject has consented, when required by law or in pursuance of a contract. Conflict with AML Proposal?

5. The “Payments Package”

“Innovation, Competitiveness, Consumer Protection”

- Released on July 24 2013
- Legislative attempt following a market consultation (Green Paper on Card, Mobile and Internet Payments with deadline for submissions in April 2012)
- Consists of:
 1. A Regulation on MIFs
 2. A Payment Services Directive II, fully replacing the existing PSD (2007, legal framework of SEPA)

5.1. MIF Regulation - Scope

- Payments within the EU, where both the payer's and the payee's PSPs are located in the EU **✓**
- Non-EU banks issuing cards to non-EU citizens for their payments in the EU **✗**
- Anti-circumvention: non-EU banks or branches issuing cards to EU-based cardholders **✓**
- 4-party schemes **✓**
- 3-party schemes **✗**
- When a 3-party scheme acts like a 4-party one i.e. it licenses other PSPs to issue cards under their brand and/or to acquire payment transactions (Amex Global Network Services, Diners Club) **✓**
- Instruments to be used within a limited network (Close loop) **✗**
- Consumer cards **✓**
- Commercial cards **✗**
- Cash withdrawals at ATMs **✗**

5.1. MIF Regulation – Main Goal

Regulating Interchange rates by introducing a cap on MIFs in a two phased approach:

- 0.2% of transaction value for cross-border debit card transactions
- 0.3% of transaction value for cross-border credit card transactions
- No cap on domestic transactions for 22 months. After this period of time, the above caps also apply to domestic transactions.

5.1. MIF - Other Measures

- Separation of Scheme and Processing in corporate structure, organisation and decision making
- Licensing: Prohibition of any territorial restrictions within the EU
- No discrimination: between card users as regards the issuing bank or the provenance of the card holder
- Co-badging and choice of application: Issuers can co-badge cards with two or more different brands
- Steering: Merchants are allowed to steer consumers
- Surcharge: Not allowed on credit or debit cards with regulated MIFs
- “Honour all cards rule”: Merchants obliged to accept all cards within a given scheme only if they are subject to the same regulated MIF
- Unblending: Acquiring PSPs must charge retailers individually for different types of cards
- Transparency: PSPs will have to provide at least monthly statements to their clients acting as merchants

5.2. PSD II - Goals

- Harmonisation of the legislation on payment services throughout the European Union (and extended to the EEA area)
- Implementation of new payment products (based on the SEPA products) allowing cross-border payments in Euro as simple and secure as domestic payments
- Improvement of the protection of the payment services users

5.2. PSD II – What triggered it

- Mobile and online payments
- Investigation into EPC – the standardisation process could have created barriers
- Ensure market access for non-bank players , players with indirect means of access (=> level playing field)
- Regulation (tightened security, data protection and consumer protection measures)

5.2. PSD II – Revised Scope

- Limits current exemptions of PSD1:
 1. Independent ATM deployers: “Enabling cash withdrawals from a payment account”
 2. Mobile payments: Payments for digital content made through devices like mobile phones by introducing a value threshold above which the regulations will apply.
- Covers new forms of payment services:
 1. Payment Initiation Services (i.e. mobile wallets)
 2. Account Information Services
- Application of rules related to the transparency and obligations of information of PS users to the “one-leg transactions” and to non EU currencies.

5.2. PSD II - Access

- PSD2 sets rules of access to designated payment systems for those PSPs that use indirect means of access
- The goal is a level playing field, opening up the market to more players (and regulating them!)

5.2. PSD II - Regulation

- Security Measures for e-payments
 - Annual assessment of operational and security risks
 - Robust customer authentication for 'card not present' (i.e. online) transactions
- Consumer Protection
 - For unauthorized card payments consumers will have to bear losses up to max 50 EUR (instead of 150 EUR currently) save for fraud or gross negligence
 - Unconditional right of consumers for a refund of any disputed transactions, in cases of card payment or domiciliation
 - Banks obliged to respond in writing to any complaint within 15 business days
 - Member states obliged to designate a competent authority to deal with complaints from users and other stakeholders, i.e consumer associations
- Data Protection - tighter rules

6. A Few Words on TTIP

The “EU-US High Level Working Group on Growth and Jobs” recommended the “Transatlantic Trade and Investment Partnership” (EU Chief Negotiator Ignacio Garcia Bercero – US Chief Negotiator Daniel Mullaney).

- TTIP 1st round July 2013
- TTIP 2nd round October 2013 cancelled
- Intention of the EU side is to include Financial Services
- **A chance for transatlantic rules and standards?**
- **Any chance for non-conflicting laws and regulations?**

Thank you.

