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Integration of payment initiation services within the EU

Introduction

PSD2, which will become applicable in January 2018, expands the scope of payment services to include payment initiation services (PIS). These services allow consumers to use their bank ("Account-Servicing PSP" – ASPSP) in order to initiate online payments directly from their payment accounts. PIS give consumers an alternative means of online payments. Different payment solutions already exist across Europe: some are offered by individual banks, some in the form of a scheme in which several banks participate, and some are provided by bank-independent third-party providers without the cooperation of ASPSPs.

At the last ERPB meeting, *E-Commerce Europe* raised the concern that payment initiation services might develop in a way that would require merchants to use many different providers of such services in order to reach all potential customers and their respective ASPSPs, especially with regard to cross-border e-commerce payments. It can be understood from this that their preferred scenario would be one in which multiple providers of PIS would compete with each other and, at the same time, it would be sufficient for merchants to use only one of them to reach customers throughout the EU. This would require that an integrated pan-European market for payment initiation services would develop, in which any provider of PIS could reach any ASPSP.

This note proposes a possible way forward to ensure the successful development and deployment of PIS at pan-European level.

Building blocks for pan-European payment initiation services

To develop a pan-European market for payment initiation services, the following building blocks would be required to facilitate and harmonise interaction between PIS providers and ASPSPs:

- **Common business practices** may be needed to avoid diverging rules and implementation practices applied by ASPSPs as well as PIS providers. In practice, interaction between them may be harmonised to address in a commonly agreed way issues that may impact on the proper execution of the payment transaction.

- **Common data elements** (semantics) are needed to present a structured set of terms that are relevant for the communication between providers of PIS and ASPSPs. In other words, the concrete set of data to be exchanged between the two needs to be precisely defined.

- **Common processing formats** (technical message standard / syntax) are needed for enabling PIS providers' and ASPSPs' systems to understand and process the data elements.

The data elements needed for the payment order are covered by the annex of Regulation 260/2012 establishing technical and business requirements for credit transfers and direct debits in euro and are detailed under the ISO 20022 standard, which also provides standardised message formats for payments.

The above three elements can be found in the Rulebooks for SEPA Credit Transfer and SEPA Direct Debit developed by the EPC to support an efficient interaction between PSPs within the EU in the processing of these two payment instruments. Payment card schemes also provide for these elements of standardisation.

- **Standardised interfaces** are needed to enable PIS providers to communicate (either directly or via a processor) with multiple ASPSPs. For this there is also a need to harmonise the way (the systems and applications of) both players communicate with each other at *technical* level for the exchange of the common data elements. One way to do so would be through harmonising the application programming interfaces (API) that individual ASPSPs may develop to enable the PIS providers' applications to connect to and communicate with their applications. [1]

Possible way forward

PSD2 provides the *legal and policy* framework on the basis of which PIS will be provided in the EU. It includes a number of provisions to ensure both the security and efficiency of the new

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[1] An API is a set of routines, protocols, and tools for building software and applications. When the owner of an IT-system makes an API available, another IT-programmer has all the information needed to build its own software and applications, including how these should interact with that IT-system.

services. PSD2 will be complemented by the Regulatory Technical Standards (RTS) that the EBA is currently developing in close cooperation with the ECB. The EBA standards should be finalised by in early 2017 and they should become applicable in the last months of 2018. The EBA RTS will include *inter alia* requirements for common and secure open standards of communication.[2]

In practice, PSD2 and the EBA RTS will not cover all aspects that are relevant for the development of an integrated market of PIS in the EU. Not all these aspects indeed should be regulated. Market players may agree on common rules, practices, and standards in line with the requirements set by EU legislation, the RTS to be developed by EBA and adopted by the Commission, and competition law. For example, some kind of "rulebook" may be considered at some stage (see above). It might also be helpful to harmonise the technical communication between the PIS provider and the ASPSP by the adoption of common technical solutions based, for example, on APIs developed by the industry.

On the basis of the above considerations, a two-step approach could be envisaged. As a first step, further information could be gathered by the Eurosystem to gain a thorough understanding of the current and future organisation of the PIS market. As a second step and on the basis of the feedback received, the ERPB could consider in its November 2016 meeting the possible role it could play with regard to defining the concrete deliverables needed for achieving a pan-European approach as regards the provision of payment initiation services.

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[2] The PSD2 stipulates that EBA, in close cooperation with the ECB, shall develop draft *Regulatory Technical Standards* addressed to PSPs specifying i) the requirements for strong customer authentication and its exemptions, ii) the requirements with which security measures have to comply in order to protect the confidentiality and the integrity of the Payment Service Users' personalised security credentials, and iii) the requirements for common and secure open standards of communication for the purpose of - in particular - the new payment initiation services. According to Recital 93 of the PSD2, those open standards, to be implemented by each ASPSP, should ensure the interoperability of different technological communication solutions.