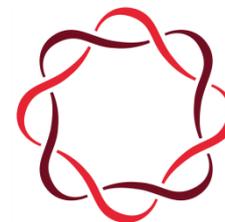


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**FINANS
DANMARK**

Finance Denmark's response to the consultation on a retail payments strategy for the EU

Finance Denmark welcomes the opportunity presented by Finanstilsynet to comment on the Commissions consultation on a retail payments strategy.

Modern economies rely on the safe and efficient flow of transactions. Payment systems allow money to flow in the economy both domestic and cross border. It is important that EU has a modern, digital and well-functioning payments market where the European population has a choice of payment methods, depending on the payment situation. Europe should be a digital front runner, also when it comes to payments.

The Danish financial sector is one of the most digitised sectors. Easy digital payments, doing banking from home and a well-functioning e-ID system are among the benefits. Finance Denmark and its members wish to proactively contribute to utilizing digitisation to create growth and innovative solutions to the benefit of the customers.

We therefore support the Commission's initiative to adopt a retail payments strategy in consultation with the market. We would welcome a strategy that bridges legislative initiatives and market led initiatives both nationally, regionally and pan-European, and thereby considers the situation in both the euro-zone and in the non-euro-zone. We support the development of standardised European payment schemes and increased interoperability between European clearing and settlement systems to enable strong European brands in healthy competition that benefits both consumers and businesses.

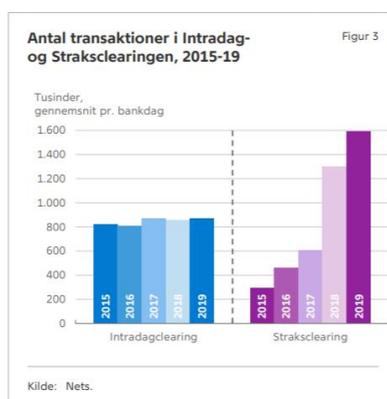
Our more specific comments on the four key areas payments instruments, payments market, payments infrastructure and the international role can be found below.

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Kontakt Louise Fjord

Payment instruments

In Denmark there is a broad range of payments instruments available, and the Danes are in general very accustomed to digital payment instruments and other solutions. This has contributed to Denmark being one of the countries in the world that uses least cash. The Danish banks have made massive investments in the Danish digital payments infrastructure and introduce instant payments for the benefit of Danish customers in November 2014. As a result of this introduction, instant payment transactions have (since 2018) outnumbered intraday transactions in Denmark (see figure on the right).



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The development has very much been demand-driven and digital payment instruments are perceived as more convenient and easily accessible than cash, as well as safer for cashiers working with in banking and retail. Cash is also relatively expensive (societal costs), and involves costs – for banks, for merchants and for consumers. In Denmark, the move toward less cash has also been supported by a general digital mindset, a “digital first” orientated public sector and a widespread trust in digital technologies. But we also acknowledge that the use of different payments instruments varies between the member states due to both different payment habits, the general use of digital solutions and geopolitical reasons. Measures regarding cash should therefore in general be handled by the individual member states

Customer demands need to be at the center of the Commissions strategy, giving the customers the choice of their preferred payment method, depending on the payment situation. The strategy should therefore not only look at instant payments. It should seek to deliver a coherent and consistent strategy for payments in Europe for the next five years where all market players can benefit and build sustainable business cases. We find it important to have a clear distinction between standards, infrastructure elements and customer solutions.

When encouraging initiatives that support a further deployment of instant payments the demands for strong cybersecurity, fraud prevention and AML risk management should be an inherent part of the discussion and development of new and existing schemes. In Denmark we see a rise in fraud from e.g. social engineering, mule accounts etc. and instant payments makes it very difficult to stop



these types of fraud in time. To ensure the consumers trust in digital payments instruments this balance between fast, user friendly and secure solutions needs to be a continued focus.

Convenience is an important factor when customers choose their payments instruments. In Denmark this is for an example seen with contactless payments, which have increased quickly and have become the Danes preferred means of payment. Hence today, more than 80% of transactions at point of sale in Denmark are contactless payments. To help this development further, we support initiatives that ensures equal access to technical components (e.g. NFC or biometric identity readers). This would enable more payments via mobile devices, which many costumers already use for mobile banking and other financial services.

In general, payment instruments should be viewed in a broader context and with a focus on how to create value added services for the customer. Finance Denmark therefore support initiatives like Request to pay (RTP), which could enable a wide range of use cases in the area of e-invoicing and bill payments, and an Account Assurance Scheme (confirmation of payee) as a possible way of verifying if an account is open for deposits for a payment transaction and increase security in payments.

Payments market

The European payments market is rapidly changing in these years, with the introduction of many new innovative solutions developed by both traditional bank and new market players. This is, among other things, due to legislative initiatives like PSD2 and the concept of open banking/finance, which enables both collaboration between players and increases competition. Finance Denmark welcomes these initiatives as they ensure continued innovation of financial services and strengthens the development of digital solutions to the benefit of both consumers and businesses.

The full impact and benefits of PSD2 has not yet become a reality. PSD2 is complex legislation, which has given rise to complications for both banks, third parties and other market players when transforming the legislative requirements into e.g. well-functioning API's and strong customer authentication solutions.

We are not in favour of reviewing PSD2 at this stage as the current legal framework is sufficient. We generally consider that the PSD2 framework facilitates access to the payments market by new players, while balancing this with security and licensing requirements. It is therefore important to give the market time to

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absorb the changes introduced and to adapt. Instead we welcome a continued dialogue between market participants and authorities on for example further standardisation of API's, to reap the full benefits of PSD2.

Payments infrastructure

Finance Denmark generally support the development of standardised European payment schemes and increased interoperability between European clearing and settlement systems to enable strong European brands in healthy competition that benefits both consumers and businesses.

We encourage the European Commission in collaboration with ECB to ensure interoperability between all clearing and settlement mechanisms (CSMs). We would suggest that the Commission supports the requests from the sector to make it possible for CSM's to act as Single Instruction Parties in regard to TIPS, as this will enhance the interoperability between TIPS and the CSM systems and thereby use the existing payments infrastructure to create a significant uptake to TIPS.

We also see a need for the regulators and overseers to generally align initiatives like TIPS and the work in the European Retail Payments Board with the initiatives in the banking sector to avoid duplication and further fragmentation. This should be done in a transparent way with respect for the big investments the sector itself have made in establishing a national instant payments infrastructure and the further development hereof.

This development can be seen in the Nordic countries, where P27 is working to make payments more efficient in the Nordic currencies and the Euro with a payment infrastructure for domestic and cross-border payments. The work is being supported by the Nordic Payment Council that manages Nordic payment schemes based on the SEPA schemes, which have been adapted for the Nordic currencies. Market led standardisation and interoperability initiatives like these should be supported by the Commissions strategy.

The effort to create interoperability of the instant payment infrastructure needs to be balanced with a strong focus on cybersecurity, fraud prevention and anti-money laundering risk management tools. In that regard, regulators should work together to ensure that information stemming from fraud/money laundering from instant payments can be shared between banks and between banks and authorities. Therefore, when encouraging initiatives on a further deployment of instant payments fraud prevention and AML risk management should be an inherent part of the discussion.

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Furthermore, mandating use of instant transaction instead of batch transaction is not necessarily beneficial in all circumstances. It can - all things alike - make it more difficult for the clearing participants to manage liquidity and they can lose the netting-effect that comes with batch payments. This is an issue to have in mind because a large proportion of payments are initiated, hours, days or even week before they are being payed, e.g. bill payments.

In terms of how to best facilitate access to payments infrastructure we support a model, where payment institutions etc. can become indirect participants, as this leaves more options and the ability to choose the best solution for each participant. Maintenance and development of payments infrastructure is costly. It should therefore always be a principle, that everyone who on equal terms has access to the payment infrastructures should also contribute towards covering these costs.

Access to payments infrastructure is in general regulated by a wide range of demands that direct participants need to comply with and is overseen in great detail. This is not only due to legislation but also the overseer's implementation of international frameworks for compliance (ex. CPMI IOSCO principles for clearing). In most cases the infrastructure also uses common standards (ex. ISO 20022 for clearing). These measures are in place in part to ensure secure and efficient infrastructures. Direct participants in the infrastructure therefore need to show compliance in a wide level of areas, as a non-compliant participant can expose the infrastructure or other participants of risk, that can ultimately heighten the risk of successful cyber-attacks or service discontinuations. Access to payments infrastructure therefore has to be balanced with compliance and security requirements especially for systemically important infrastructure.

International role

It is important that EU has a modern, digital and well-functioning payments market where the European population has a choice of payment methods that can be used both inside and outside the EU. We support the endeavour to make Europe a digital front runner, also when it comes to payments. The Commission should enable this by supporting continued developments of standardised payments schemes and interoperable solutions.

The relevant public authorities should assist the market players in finding the appropriate tools to create a strong business model that works from both an economic and competition perspective, is safe to use for the customers and that matches the expectations for all stakeholders involved. To be able to offer this, it

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is important that the European payments actors have access to acquire it-solutions on an international market, but always combined with strict adherence to all legislation regarding, among other things, it-security, data processing and guarantees for continued service in case of emergencies, international conflicts etc. These requirements need to be reflected in the legal agreements when acquiring it-solutions (or renegotiation exiting agreements) regardless of vendor nationality.

We are available for further dialogue and will share our full response to the consultation when it has been submitted.

Kind regards

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