Second revision of payment services in the EU


This briefing provides an initial analysis of the strengths and weaknesses of the European Commission’s impact assessment (IA) accompanying the above-mentioned proposals, submitted on 28 June 2023 and referred to the Committee on Economic and Monetary Affairs (ECON). The initiative was announced in the EU’s 2020 digital finance strategy and features in the Commission work programme and the EU’s Joint Declaration on legislative priorities for 2023, together with the parallel initiative on open financial data access.¹

The second (revised) Payment Services Directive (PSD2), adopted in 2015 and applicable since 2018, provides a framework for all retail payments in the EU, where payment service providers (PSPs) – i.e. banks and other payment and e-money institutions – offer payment services to payment service users (PSUs), i.e. consumers and non-financial businesses (IA, p. 1). PSPs such as banks provide the services linked to payment accounts (account servicing PSPs), while other PSPs (third-party providers of payment services - TPPs) provide payment services without the need for an account, via IT infrastructure (including, inter alia, the authorisation, initiation, execution and settlement of digital payments and enabling cash withdrawals from ATMs).

The evaluation of the current PSD2, which was conducted for and in parallel with this IA (‘back to back’),³ concluded that the directive improved both the development of the EU payments market and customer protection (the latter mainly through strong customer authentication (SCA)). However, it also found that its objectives have only been partially achieved, owing to regulatory deficiencies (IA, pp. 4-5).⁴ The IA tackles the shortcomings identified in this evaluation – in line with the ‘evaluate first’ principle and against the backdrop of close interlinkages with numerous other legislative acts, such as the Settlement Finality Directive (SFD) and the Data Act.

Problem definition

The IA presents a clear and well-structured problem definition, including a good problem tree, built around four problems caused by four problem drivers (IA, pp. 7-19, 22). It also analyses the consequences of the problems for the main stakeholder groups, as recommended by the Better Regulation Guidelines. The most affected stakeholders are: PSUs (both consumers and businesses, including merchants), PSPs (banks and TPPs (businesses, especially non-bank fintech PSPs)) and public authorities (IA, pp. 19-21 and Annex 3). The four problems to be tackled by this initiative are:

1. **consumers are at risk of fraud and lack confidence in payments** caused by fraud-related issues with SCA (notably, new types of fraud, abuse of SCA exemptions, consumer ignorance about fraud and insufficient cooperation between PSPs);
2. **imperfect functioning of open banking** (OB) caused by issues with the application programming interfaces (APIs) through which account servicing PSPs (mostly banks) have to make users' account data accessible to TPPs (based on users' consent);
3. **inconsistent powers and obligations of (national) supervisors** caused by fragmented national enforcement of the rules in case of breaches of PSD2, and by divergences in application of licensing requirements, notably in the context of cross-border activities (caused by insufficient and unclear enforcement provisions);

4. **unlevel playing field between banks and non-bank PSPs**, preventing the latter's access to 'certain key payment systems’ (caused by the absence of supervision/licensing regime for payment institutions and EMIs in PSD2).

The IA details several major **consequences of these problems** for payment system users, PSPs, TPPs and the single market (IA, pp. 9-10, 19-21; public administrations seem to be missing here, but are mentioned as affected stakeholders in other sections and Annex 3). To start with, 'fraudsters are constantly adapting', so that users continue to see fraud as a threat to their trust in digital payments. In addition, customers have a limited choice of payment services, owing to the exclusion of some TPPs and their imbalanced concentration in some smaller Member States, which focus on cross-border services (due to different interpretation of PSD2); moreover, the fragmentation of the single market leads to 'unnecessarily high costs or inefficiencies in payment instruments'.

In addition, the IA notes that the dependency of (non-bank) TPPs on direct or indirect access to account data affects their competitiveness on the payments market, and it sees the same issue for banks offering open banking, because their competition and innovation is also limited by the uncertainty of the current legislation and varying application by the Member States. The IA further highlights the fact that complaints by banks against other PSPs regarding access to account data are often not 'followed up'. All the problems identified are expected to persist or increase under the baseline (no action) scenario, since the payment market – and with it, fraud and fraudsters – is 'in constant development', and the high costs of the current fragmented application of the PSD2 rules would continue to limit growth and competition in the area of open banking (IA, p. 21).

The problem definition is substantiated by consistent references to the evaluation, stakeholder feedback and other relevant sources (see section on quality of data and research below). In terms of the **scope of the problems**, the IA stresses the importance of the payments market for the EU’s economic activity and GDP, as cashless payments have been growing for years, both in number and value, reaching €240 trillion in 2021 (IA, pp. 1-3, 21). The IA points to behavioural changes during the COVID-19 pandemic, which increased the relevance of digital payments: in terms of value, they accounted (with 46% of sales transactions) for a higher share than cash (42%) in 2022 (in 2019, cash still accounted for a higher share of value than cards, by 47% to 43%). Based on European Central Bank (ECB) data, the IA states that the trend of using cards has increased by 55% compared to 2017, and the use of e-money by as much as 120% (IA, p. 2). Additional information, provided in later sections or the annexes, could have been useful here – for example, regarding the size of specific stakeholder groups (e.g. 724 payment institutions (PIs) and 275 e-money institutions (EMIs) were registered at the EBA in 2022). Lastly, the IA reports on the rise of different fraud and scam methods in recent years, such as 'pre-payment fraud', 'invoice fraud' and 'authorised push payment' fraud, estimating the latter at around €323 million for all SEPA euro credit transfers in 2020 (based on EBA data, IA, pp. 9-10).

**Subsidiarity/proportionality**

The IA suggests a **dual legal base** for this initiative: First, it maintains the legal basis of PSD2 (Article 114 of the Treaty on the Functioning of the EU, which refers to the single market). The IA convincingly explains the need for more EU-wide harmonisation to tackle the fragmented EU payment market and overcome diverging national applications, notably for the increasing cross-border use of payment services (IA, p. 23). Second, for aspects relating to EMIs (currently not covered by PSD2), it adds Article 53 – the legal base of the e-Money Directive – and proposes to repeal the directive and incorporate EMIs in the revised PSD2 (PSD3) (IA, p. 23). Annex 8 justifies this merger/repeal, citing, inter alia, harmonisation and simplification as arguments (IA, pp. 175-178). It considers two options in this context (in addition to the baseline): complete 'absorption' of the
e-money concept into PSD3 or 'a middle ground solution' harmonising the licensing regime as far as possible with the PSD regime, preserving other specificities of e-money business (under PSD3, see Annex 7). The IA finds the latter, intermediate solution to be the most effective and efficient, allowing for sufficient simplification and cost reduction through harmonised licensing requirements and definitions. Proportionality, which seems to have been noted repeatedly as relevant by stakeholders, is taken into account in the assessment of the options (IA, pp. 30, 34, 39, 65, 68, 75, 83). The subsidiarity deadline for national parliaments was 2 November 2023.

Objectives of the initiative

Based on the evaluation's conclusion that the PSD2 objectives were only partially achieved, the IA maintains the five general objectives of the IA accompanying the PSD2 proposal (IA, p. 24): 1) to ensure a level playing field between incumbent and new providers of card, internet and mobile payments; 2) to increase the efficiency, transparency and choice of payment instruments for payment service users (consumers and merchants); 3) to facilitate the provision of card, internet and mobile payment services across borders within the EU by ensuring a single market for payments; 4) to create an environment which helps innovative payment services to reach a broader market; and 5) to ensure a high level of protection for PSUs across all EU Member States. Furthermore, it presents four specific objectives directly deriving from the problems identified above:

1. to strengthen user rights and protection against fraud;
2. to improve the competitiveness of open banking services;
3. to improve enforcement and implementation in Member States; and
4. to improve (direct or indirect) access to payment systems and bank accounts for non-bank PSPs.

A clear distinction between the general and specific objectives, required by the better regulation guidelines, is not evident here, as they partly overlap (e.g. specific objective 1 and general objective 5). Furthermore, the IA does not present operational objectives or other clear deliverables (also recommended by the better regulation guidelines). It presents only a few indicators in relation to the monitoring (and evaluation) of whether the specific objectives are achieved under the preferred options (IA, p. 60, see section on monitoring below). Therefore, the better regulation guidelines' S.M.A.R.T criteria, according to which objectives should be specific, measurable, achievable, relevant and time-bound, do not seem to be fully applied by the IA. Annex 3 states, without further detail, that the improved functioning of payment systems is expected to contribute to Target 8.2 of the UN Sustainability Development Goals (‘to achieve higher levels of economic productivity...’, IA, p. 91).

Range of options considered

The IA outlines the main features of the dynamic baseline scenario against which the options will be assessed, in line with the problem definition (IA, pp. 25-26). It takes other relevant EU initiatives into account, such as the SFD and the proposals on instant payments and the Data Act, none of which are deemed to solve the problems identified above, as they exclude certain aspects such as protection against fraud for non-instant credit transfers and access to certain payment data and payment infrastructure for non-bank PSPs.

In addition to the baseline, the IA presents 16 policy options to achieve the four specific objectives (IA, pp. 26-34). Many of these options can be combined, even within an objective, which somewhat limits the range of ‘full’ alternatives to eight mutually exclusive options. In the end, the IA selects 12 options as part of the preferred options’ package (counting in option 4b). The description of the options, separate for each specific objective, is clear and balanced, albeit rather brief. As often happens in IAs, some details are only spelled out later in the IA – for example, that the conditional reversal of liability would depend on a PSP’s failure to prevent fraud, namely due to non-functioning IBAN/name verification (option 1e), IA, p. 39). In addition to the 16 options, Annex 7 lists a number of ‘technical clarifications and other changes’ to be made to PSD2, mostly based on EBA input. These concern definitions of key terminology, such as ‘payment accounts’ and ‘payment instruments’,
envisaged amendments to SCA and fraud prevention measures and clarifications on supervision (IA, pp. 167-174). The IA does not mention any options discarded at an early stage. Table 1 below shows an overview of the options (with the IA’s preferred options highlighted in grey).

**Table 1: Structured overview of the options assessed in the IA**

| Specific objective 1: Strengthen user rights and protection against fraud |
|---|---|---|---|
| **5 options** | a) Measures to improve the application of SCA (clear definitions and user guidance) | b) Legal basis for PSPs to share information on fraud and mandatory education of customers | c) Extend provision of IBAN/name verification to all credit transfers* |
| | d) Full or conditional reversal of liability between users and PSPs for fraudulent authorised transactions |

* Similar to the proposal for instant payments.

| Specific objective 2: Improve the competitiveness of open banking services |
|---|---|---|
| **5 options** | a) Mandatory requirement for banks to provide dedicated data access interface for TPPs (no more ‘fallback interface’; exemptions to be defined by EBA) | b) Permission dashboards for data owners to have an overview of their data access permissions |
| | c) Single harmonised API standard for TPPs’ access to account data or d) Clarification of rules on payment account data access/minimum requirements for open banking data interface, including relevant RTS specifications and upholding the parity principle* |
| e) Abandon the non-contractual/no charging default approach (would allow ASPSPs to require a contract and fee for TPPs’ access to data) |

* Minimum data would be, inter alia, the payee’s name and IBAN, payment initiation-specific services, such as execution confirmation and status of the payment.

| Specific objective 3: Improve enforcement and implementation in Member States |
|---|---|---|
| **3 options** | a) Replace the greater part of PSD2 with a regulation | b) Strengthen provisions on penalties in PSD |
| c) Create an EU-level supervisory body for open banking |

| Specific objective 4: Improve access to payment systems and bank accounts for non-bank PSPs |
|---|---|
| **3 options** | a) Reinforcement of PIs’ and EMIs’ right to access payment systems via an account with a credit institution |
| b) Grant PIs and EMIs direct participation in all payment systems, including those designated by Member States pursuant to the SFD or |
| c) option b) + Provide additional clarifications on procedures for admission of new members to payment systems, including the carrying out of risk assessment |

Source: Compiled by the author, based on the IA.
Assessment of impacts

The assessment of the options is mostly qualitative, with quantitative estimates of the costs incurred (mostly by banks, some by TPPs and Member State authorities, IA, pp. 35-52). Expected costs and benefits of the preferred options are summarised in Annex 3, including various one-off and recurrent costs, presented separately for each specific objective and stakeholder group (citizens/consumers, businesses and administrations), which makes it rather challenging to get a comprehensive overview (the IA does not provide total costs or quantify the total net cost-benefit). Benefits are featured more generally and include positive overall benefits for society from a reduction of payment fraud, more use of open banking and ‘fairer’ competition, which are admittedly all difficult to quantify, let alone monetise. Consequently, the substantiation of benefits seems limited at times; the cumulative effect(s) of the envisaged combinations of options are noted only selectively in the summary of the preferred options, but are otherwise not evident from the IA (IA, pp. 52-53). The focus is on economic and social impacts, while environmental impacts are mentioned once (no negative implications have been identified, IA, p. 59).

**To improve user rights and fraud protection**, options 1a and b are considered to be effective for clarifying the treatment of different transactions, including those initiated by merchants, by mail or telephone, and to educate consumers about fraud, while causing no or limited costs (IA, pp. 35-38). As regards the costs of extending the IBAN/name verification service to all credit transfers (option 1c), the IA expects total one-off implementation costs of around €50 million (€40 000 per PSP on average, IA, p. 38), based on the calculations carried out in the IA accompanying the Commission proposal on instant payments. These costs are expected to be partially offset by ‘operational savings’ from the reduction of complaints and (potential) customer fees (although the latter idea is dismissed immediately by the IA, as it could deter usage of the service). Option 1e (conditional reversal of liability between PSUs and PSPs in case of fraudulent transactions) is preferred over full liability reversal for PSPs (option 1d) because it would, according to the IA, not only incentivise PSPs to provide well-functioning IBAN/name verification but also payers/users to avoid unnecessary payment risks (IA, p. 39).

**To improve the competitiveness of open banking in the EU**, the IA finds options 2a, b and c – and the combination of these options – to be effective in making data access more secure and manageable, while rejecting a single harmonised API standard and abandoning the no-charging default, both of which are considered to be inefficient due to high costs for banks (‘extensive resources and investments’, IA, pp. 40-48). The IA notes that a single standard was rejected by the majority of banks and TPPs and would also not be coherent with the IA on open financial data access (which does not impose a single common standard, IA, p. 44). The preferred option 2d is expected to facilitate management and monitoring of the interfaces more efficiently (expected total one-off costs are estimated to be up to €190 million for banks and €26 million for TPPs, IA, p. 89).

**To improve the implementation in Member States**, the IA opts clearly for replacing part of PSD2 with a regulation that is directly applicable across the EU, arguing that the advantages of a more harmonised single payment market would largely outweigh the costs of repealing the current national transposition provisions (IA, p. 48). In the same vein, the IA anticipates the benefits of stronger penalty rules to exceed the costs for Member States of enforcing them. However, it rejects the option of creating an EU supervisory body for open banking as too costly for PSPs.

Finally, **to improve PIs' and EMIs' access to payment systems and bank accounts**, their right to access data via a bank account is reinforced by placing the burden of explaining a rejection on the banks (IA, p. 51). In addition, PIs and EMIs are granted the right to directly access payment accounts if they fulfil the access requirements of the system (which the IA suggests clarifying following the UK example in option 4c, IA, p. 52). At the end, the IA compares the retained options under each specific objective, as well as the package of preferred options, in terms of effectiveness, efficiency and coherence (but not proportionality, which is addressed in relation to certain options - see also section on SMEs below).
**Territorial** variations in terms of the options’ impacts on specific Member States (or variations between euro and non-euro countries) are not spelled out in the IA, although the divergences between Member States’ implementation of PSD2 was identified as one of the problems, nor are impacts on third countries. Furthermore, considering the relevance of users' cybersecurity concerns, the assessment seems rather weak in this respect, remaining very general and mostly referring the reader to the Digital Operational Resilience Act and the existing ECB oversight system or stating that ‘solutions can be designed in full compliance with GDPR’, but without explaining how (IA, pp. 5, 38, 78). It is not clear why additional ‘user rights measures’, addressing specific problems users had reported on – for example, with respect to ATM, payment card usage and currency charges – are discussed separately in Annex 10 (similar to the above-mentioned ‘technical’ clarifications and definitions, also assessed separately (in Annex 7) and envisaged measures to access cash, dealt with in Annex 9). In terms of **fundamental rights**, the IA expects privacy to be enhanced by clarifications in line with GDPR (IA, p. 59).

**SMEs/Competitiveness**

The IA contains a four-step **SME test** assessing the options’ implications for SMEs, stressing that, in addition to the public consultations, the Commission engaged in bilateral contacts with relevant associations (IA, pp. 202-205). SMEs are expected to be impacted by the initiative both as users of payment services and account-servicing PSPs, representing the majority of banks, notably regional and local banks, and TPPs (small fintech companies). The IA expects SME users to benefit in the same way as other users from the better functioning of a **more competitive and innovative payment market** (IA, pp. 84-85). As PSPs, the level playing field and the clarification and simplification of rules are expected to have positive effects. Notably, the IA stresses the importance of proportionate application of the proposed measures and envisages exemptions from the obligation to give access to an account in cases where a small bank would be ‘unduly impacted’ by a request by a non-bank PSP, as well as from the requirement for a dedicated interface (IA, p. 205). In this context, the IA stresses that size should not be the only justification for an exemption (citing ‘a niche or specialised business’) and that ‘lighter supervisory requirements’ in line with certain thresholds (not specified) would be possible under the preferred options, IA, pp. 205).

**Simplification and other regulatory implications**

According to the IA, the PSD2 evaluation led to a search for simplification ‘opportunities’ (IA, p. 59). The IA expects the integration (and repeal) of the e-Money Directive into PSD2 and the clarifications of definitions and procedures (notably on SCA) to simplify the payment market procedures (IA, pp. 52, 59 and Annexes 7 and 8). The IA does not expect administrative costs for businesses and citizens under the preferred options, considering, therefore, that the ‘one in, one out’ offsetting principle is not applicable (IA, p. 59). It does anticipate increased implementation and enforcement costs for national public authorities, but suggests these could be offset with ‘charges to PSPs for specific services’ (e.g. for licensing and authorisation, IA, p. 85). The IA’s explanations of the coherence of the preferred options with other relevant EU legislation governing the digital payment market appear convincing, but presume detailed technical expertise on the part of the reader in order to fully grasp all of the details (e.g. on the General Data Protection Regulation, Market in Crypto Assets Regulation, the SFD, the Data Act and the proposals on instant payments and open finance, IA, pp. 56-57 and Annex 12).

**Monitoring and evaluation**

The IA suggests a review of the initiative five years after entry into force and presents a few monitoring indicators (one in relation to specific objectives 1 and 3 and two for specific objectives 2 and 4, IA, p. 60). They refer, for example, to the reduction in fraudulent digital payments, the number of investigations in Member States and the number of PIs and EMIs with access to key payment systems. The IA indicates generally that these data would be provided by the EBA, the Member States and/or other stakeholders, without going into further detail.
Stakeholder consultation

The Commission conducted an open public consultation from 10 May to 2 August 2022 and a parallel targeted consultation with more detailed questions, ending on 5 July 2022. It also refers to other consultations, notably by the Member States, carried out in the context of the support study and in the framework of two specialised Commission expert groups. Annex 2 summarises the results of the consultations, including a breakdown of the respondents. The main text of the IA refers consistently to stakeholder feedback and meetings with Member States, albeit in very general terms (‘most respondents’, 'a majority of Member States'). It affirms that only a 'small number' of Member States rejected harmonisation of the rules through a regulation (IA, p. 49).

Supporting data and analytical methods used

Besides the stakeholder consultations, the IA draws on the PSD2 evaluation, the extensive study conducted to prepare this IA and specific EBA advice, IA, p. 92). Furthermore, it refers frequently to the IAs on instant payments and open financial data access. Data for the cost-benefit analysis mostly came from the EBA and ECB, and the Standard Cost Model was used for the IA’s estimates. The IA is transparent about uncertainties and limitations, pointing to the unclear and varying definitions of PSPs (notably TPPs) and their activities, which imply (and explain) different interpretations of key elements by different stakeholders and Member States. Moreover, the IA acknowledges the scarcity of precise data on open banking usage in the EU and on enforcement and implementation costs in the Member States. These limitations are compensated by additional information in Annexes 5 and 11 to corroborate, for example, the assumption of growing demand for open banking and by using data from the United Kingdom as a proxy for certain cost calculations (IA, pp. 13-14, 50, 95-96). Annex 4 briefly describes the data sources, methods and assumptions (notably regarding SCA fraud rates, proportionate cost calculations and the relevance of the size of credit institutions), but refers the reader to the support study and/or the interrelated IAs cited above for further details.

While the IA is clear and logical overall, and reflects the Commission’s efforts to make the technical details accessible, the sometimes varying use of terminology for different PSPs (account servicing PSPs, ASPSPs, TPPs, PIs, EMIs and/or non-bank PSPs, etc.), the frequent references to unclear definitions of key actors and activities, and the complex interactions with other legislation do not facilitate a comprehensive overview, notably for non-expert readers. The same goes for the scattered presentation of the details of some options (and the combinations of these options) and of the additional measures – which are also part of the preferred options, but are assessed separately. Given the technicality of the subject matter, the number and diversity of payment stakeholders and the interaction with other legislation, particular attention to this inherent challenge would have further improved the transparency of the analysis.

Follow-up to the opinion of the Commission Regulatory Scrutiny Board

The Regulatory Scrutiny Board (RSB) issued a positive opinion with reservations on the draft IA on 3 March 2023, listing a number of ‘significant’ shortcomings, not all of which seem to have been fully addressed in the final IA. The issues criticised by the RSB related, inter alia, to the assessment of impacts on SMEs, competitiveness, consumers, Member States, third countries and the EU economy as a whole; it also asked about the cumulative effects of the combinations of options. Since draft IAs are not publicly available, it is challenging to judge precisely to what extent these issues were modified in the final IA. However, as indicated in this briefing, several issues could still have been improved – particularly in the core text of the IA, as it seems that some RSB requirements were addressed by simply adding annexes (notably the SME test and the explanations on open banking).

Coherence between the Commission’s legislative proposal and IA

The proposals appear to be in line with the IA. The transposition deadline for the directive is 18 months after entry into force (six months for amendments to the SFD).
The IA underpins the proposal for the second revision of the Payment Services Directive with relevant internal and external expertise. Despite some weaknesses in the definition of objectives, it follows a clear intervention logic, based on four problem areas. To tackle these, 16 options and combinations of options are assessed, 12 of which are selected for the final package of preferred options. While the analysis is clear and logical overall, the details of the measures under the options and of the additional technical measures and clarifications (assessed in annexes) could have been presented in a more coherent and inclusive manner. This would have made the IA’s technical elements more accessible for non-experts. The IA’s focus is on economic and societal impacts. Given its relevance for the identified problems and users’ trust in payment services, cybersecurity could have been assessed in more depth.

ENDNOTES

1 See the EPRS briefing on the open financial data implications IA.
2 Payment services include, inter alia, operations linked to a payment account, payment transactions, transfers of funds, execution of payment transactions covered by a credit line, payment initiation and account information services (IA, Glossary, p. 5).
3 Published as Annex 5 to the IA.
4 On the context of the PSD2 implementation, see the EPRS implementation appraisal.
5 The IA finds the current PSD2/RTS interface regime to be very complex, often involving two interfaces (API and fallback), which are often considered inadequate and of low quality by TPPs (IA, p. 14).
6 An analysis in Annex 6 concludes that the scope of PSD2 should not be extended to so-called ‘pass-through wallets’ such as Apple Pay (except in the case of certain clarifications in relation to SCA), as it finds the evidence for the existence of problems for these PSPs to be weak and as these services are covered by European Central Bank oversight (IA, p. 162).
7 At the time of writing, only the Czech Parliament had exchanged information in a political dialogue (letter of 13 November 2023).
8 The IA speaks of an annual ‘authorised push payment’ fraud reduction of ‘a few percentage points... (for example, a 10% reduction would represent €32 million of benefit annually), but does not explain why 10% (and not 5% or 15%), nor does it detail other underlying assumptions in this context (IA, p. 86).
9 The IA does state: ‘The requirement to offer an IBAN verification service will proportionately have a greater cost in non-euro area Member States, since in those Member States there are fewer PSPs offering euro instant payments, and therefore fewer PSPs which have already incurred the cost of implementing IBAN verification...’ (IA, p. 85).
10 These aspects/annexes might have been added to address the criticism in the RSB opinion.
11 The IA notes that, since the public and targeted consultations did not identify SMEs specifically, ‘bilateral contacts’ with representatives of payment institutions, e-money institutions, fintechs and others took place.