AmCham EU
SPEAKING FOR AMERICAN BUSINESS IN EUROPE

Our position

Electronic payments: a vital component of a digitised European economy

AmCham EU speaks for American companies committed to Europe on trade, investment and competitiveness issues. It aims to ensure a growth-orientated business and investment climate in Europe. AmCham EU facilitates the resolution of transatlantic issues that impact business and plays a role in creating better understanding of EU and US positions on business matters. Aggregate US investment in Europe totalled more than €2 trillion in 2017, directly supports more than 4.7 million jobs in Europe, and generates billions of euros annually in income, trade and research and development.

American Chamber of Commerce to the European Union
Speaking for American business in Europe

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Introduction

The increasing use of new communication technologies and the need for specific payment mechanisms for e-commerce have led to the development of e-payments, i.e. payments that are initiated and processed electronically. We are entering a new era of innovative payments but stringent regulatory requirements could hinder Europe's competitiveness.

The digital economy and electronic payments

The digitization of our society and economy is impacting all aspects of daily life. Everything from how we interact on a personal level to the foundation of our economy is changing with the development of digital technology. Payments is no exemption from this trend and people are progressively moving away from cash towards electronic payments. In line with this trend, electronic payments are becoming an integrated part of daily life. From self-stocking fridges to road tolls, a payment functionality is often an important component which enables digital technology to develop and evolve.

One example of this is the growing e-commerce sector, which is dependent on well-functioning, secure and convenient electronic payments. According to Eurocommerce's 2017 Ecommerce report[1], European ecommerce turnover increased by 15% to €530 billion in 2016, forecasting a continued growth rate at 14% in 2017. It is difficult to imagine a thriving e-commerce space without digital payments and there is an ever-increasing multitude of different payment solutions available in the online space. Another example is the applications of the internet of things, where for instance your fridge could detect if you are running low on milk and automatically place an order – and pay – for a refill. By 2020, research from eMarketer estimates that there will be over 30 billion connected devices – a large part of which will have a payment function. Payment functionalities can also be integrated in chatbots and applications, making the payment a seamless part of the shopping experience.

The electronic payments ecosystem

A few years ago, there were not many different ways in which a consumer could pay for a service or a good from a business, and card payment or invoice/bank transfer were basically the only options for an electronic payment. In today's world however, there is an increasing number of providers and solutions for electronic payments – even though cash still accounts for 85% of payments in Europe but there are still significant differences between countries. Overall, the use of cash is however shrinking and consumers and business alike are requesting smarter, more convenient and safer methods of payment. According to the ECB's statistics on non-cash payments, the total number of non-cash payments in the EU, comprising all types of payment services increased by 7.9% to 134 billion in 2017 compared with the previous year[2].

Ubiquity

The internet has solidly grown to offer goods and services remotely, electronic payments had to evolve to support the ever increasing trend of purchasing online, schemes have introduced new tools such as tokenisation to shield the payment credentials and secure the payment transaction and eco system by using an alias during the online transaction. In the online space wallet providers have strived offering a secure and convenient way to pay online.

[1] https://www.eurocommerce.eu/media/142202/c_european_ecommerce_report_2017_v170623-published_28basic_29.pdf

[2] https://www.ecb.europa.eu/press/pr/stats/paysec/html/ecb.pis2017.en.html

Card payments

The first types of payment cards emerged already before the 1950's but the technology have evolved massively since then – not least in relation to security aspects. In simplified terms, card payment technology is based on a card scheme who either issues the card directly to the card holder or works with partner banks to provide the consumer with a payment card. That same card scheme will also work with the banks of businesses to connect the two and make sure that money can be transferred between the consumer and business. This removes the need for millions of bilateral contractual relationships between banks in a global economy and makes sure that consumer from Europe can use their cards all over the world and visitors from other parts of the world can visit Europe and pay for goods and services.

As mentioned above, card payment technology has evolved massively throughout the years and card payments is one of the safest way of paying or receiving payment through the 'chip and pin' technology. More and more cards in Europe today also have a contactless functionality which removes the need for cash also for smaller payments. In addition to this, the rails and technology for card payments are also often used to facilitate other types of payments – such as mobile payments.

Mobile payments and connected devices

Most consumers in Europe today have access to a smartphone and increasingly, this also includes a payment functionality. Mobile payments enable consumers to make payments via their mobile phone either online or by physically tapping their phone to a payment terminal. Other connected devices such as wearables can also be used in a similar way.

Mobiles have become a "digital wallet" enabling cards to be securely stored or bank account details.

Account to account payments and instant payments

Through new digital solutions, account to account payments are becoming more convenient. A bank transfer traditionally involved complicated codes and authorisations coupled with time-lags and potentially high costs. Digital solutions – both from the banks and third-party payment providers (TPPs) – are changing this and consumers can make seamless transactions to both peers and businesses instantaneously or close to real time.

Digitisation is also increasing competition in the payments space and the use-cases described above are being offered by a broad variety of companies. FinTech start-ups are developing new solutions for payments which are starting to compete with existing methods, established companies such as payment schemes and banks are working hard to innovate and offer relevant solutions to a more demanding audience and in addition to this, companies traditionally active in the online platform and digital space are rolling out payments functionalities.

Safety and security

As the payments sector develops, the market is opened to new solutions and businesses . In addition to creating competition, this could lead to new instances of fraud and hacking. An electronic means of payment could potentially be compromised at two levels; the transaction level and the system level. Transaction level fraud can occur if the payment details of a person are somehow compromised and used by someone else to buy goods or services. At the system level the payment infrastructure could potentially also be the subject of a cyber-attack for instance. The motivation for such activities could both be to obtain payment details but could also be used to harm the trust consumers and business have for electronic payments.

Safety and security are therefore paramount for all businesses active in the electronic payments ecosystem. According to the Edgar Dunn Advanced Payments Report 2016[3], 84% of payment professionals think security remains the biggest concern. It is essential that businesses stay one step ahead and invest in robust and future-proof security solutions which protect the consumers as well as the system itself. This is particularly important as the electronic payment system grows and more solutions are offered to consumers. According to data by Juniper research[4], fraudulent transactions will increase by 239% until 2020 – amounting to a total value of over 20 billion euros. It is therefore vital that companies active in the electronic payment field are able to invest in resilient and future-proof security solutions – including fraud detection systems, biometric security and global analysis of fraud – and indeed, e-payment providers already invest a huge deal in security solutions

The value of electronic payments

Businesses

Electronic payments provide businesses with new and exciting opportunities to better serve their customers, with increased convenience and safety when compared to traditional cash and check payments. One of the main benefits is that the customer is not limited to the cash they have at hand but have access to their bank account or credit line through for instance a payment card. Electronic payments also enable businesses to serve a global customer basis and accept payments online. Research from Mastercard has showed that when a business starts accepting card transactions, the average transaction size rises by 10-15%.

Cash is often described as a quick and easy way of paying. In fact, electronic payments can be even more convenient and fast than cash through for instance contactless payments. Electronic payments thereby speed up the check-out process and increases sales for businesses.

Consumers

The same way business who accept electronic payments have access to a global customer basis, consumers who have and use electronic payments can go online and look for better deals. Having access to the bank account and possibly a credit line is also a benefit for the consumer. E-payments are also an important means of financial inclusion, particularly in developing countries where much of the population may not have access to bank accounts.

Electronic payments are associated with a higher degree of consumer protection than cash – in particular payment cards. For instance, the international card schemes offer reimbursement for goods bought online which were never delivered and protects the consumer in certain situation where there is a dispute around the service.

[3] https://edgardunn.com/2016/05/2016-advanced-payments-report/

[4] https://www.juniperresearch.com/researchstore/fintech-payments/online-payment-fraud

The number one priority for most companies active in providing electronic payments is security. Consumers using electronic payments have to worry less about the safety of the payment as there are several layers of security built in to the system. If fraud occurs, the policy from the major international card schemes is that the consumers has minimal liability. This however differs between different types of payment but payment cards will normally have the highest consumer protection standards.

Governments and public authorities

Cash is one of the key drivers of the black and shadow economy, which results in millions of euros lost in taxes for governments each year. There are two types of transactions within the cash-driven shadow economy, one is committed where both the consumer and the business is aware that no taxes are being paid and they are for instance offered a lower price through this. However, a very large part of the shadow economy is uncommitted – i.e. the consumer is not aware that the transaction is not being registered. Although this paper is not advocating for a cash-less society, it is clear that through promoting electronic payments and reducing cash, governments can fight the uncommitted shadow economy and thereby increase their tax revenues.

Public authorities themselves also benefit from electronic payments largely in the same way as businesses benefit from them. However, it is also worth considering that most citizens have access to electronic payments and that accepting electronic payments gives citizens better access to public services.

Finally, electronic payments are key in smart cities and societies as it enables a payment aspect to be seamlessly integrated. One example is public transport which is dependent on having a smart and convenient and fast payment solution: several cities throughout the world have created open loop systems where commuters and tourists can use their normal payment card to travel or use a bicycle.

Regulation and government intervention

Financial regulation plays a significant part in the transformation of the payment landscape. Financial regulation plays a significant role in the transformation of the payment landscape. A good example is the revised Payment Services Directive (PSD2), which promotes innovation and further harmonizes consumer protection. Too stringent regulation may hamper the appetite of the industry to invest and innovate in safety & security of the payments system.

If the actors do not find a viable commercial incentive to further invest in the infrastructure the whole security of the different payment ecosystem could be at risk. Regulators need to play a balancing act by not over regulating and compromise services that are consumer friendly. Europe needs to stay competitive by innovating and developing new services that enhance security and the customer experience; regulators need to partner with the industry and not stifle innovation and competition.

Representing American businesses in Europe, AmCham EU is a strong advocate of the free market and an open economy. In today's highly connected world, shopping is happening global and merchants and consumers benefit from international payments systems that can connect everyone at any place at any time. International payments systems have brought great value to the European retail payments market, and have made Europe pioneers in certain innovative technology in particular in relation to security and fraud protection. Policy makers should embrace this, just like consumers do. Promoting protectionist and nationalist measures that favour domestic solutions would lead to detrimental outcomes for consumers, merchants and the retail payment market as a whole.

Further, we want to argue against the idea that disruption for political, technical, economic and legal reasons originating from outside the EU exposes the retail payment system to unnecessary vulnerabilities. We live in a highly connected world which implies that both benefits and risks are shared. Both European and non-European companies are affected by the various developments across the world which makes protectionist and nationalist measure obsolete and non-productive.