European Commission Consultation:
A New Retail Payments Strategy for the EU

Submission by Barclays

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Barclays Perspective

A Strong EU Payments Market with Consumer and Merchant Choice

Barclays strongly supports policymaker efforts to ensure the EU has a strong, efficient and resilient payments network that provides consumers and merchants with a choice of innovative, effective and resilient payments options. As such, it is helpful that the Commission is taking the opportunity to review the current state of the payments landscape, and the potential for further improvements.

As context to our response, Barclays considers that as a result of policymaker and industry innovation and development, consumers across the EU today have a range of different ways in which they can make safe and efficient payments, and merchants have a range of ways in which they can accept them. These include cash, and the different card based networks, as well as newer payment initiation services introduced under the second Payment Services Directive (PSD2).

We believe that this choice on both sides of the transaction provides the foundations that support the broader EU payments landscape. With different merchants (and consumers) placing different relative value on different aspects of payments (e.g. cost, resilience, market usage, innovative features), consumer and merchant preferences will help spur continued development. As an example, the current card based payment framework is tested and reliable and offers ubiquity with very high levels of merchant and consumer use, quick authorisation of payments to merchants, and provides defined protections governed by the card schemes e.g. chargebacks. In the longer term, an EU instant payments based framework, such as SEPA Instant Credit Transfer (SCT instant) may offer an additional or alternative payment method for merchants, that may enable them to receive funds even more quickly.

However, we also believe that whilst newer payment systems may offer meaningful benefits to some merchants and consumers, a centrally-directed comprehensive move to such a framework may require significant disruption and adaptation of systems for merchants, and would take significant time for the method to reach the same levels of ubiquity as the current card based framework (if indeed it ever became as popular).

Both the current card payment framework and an EU instant payment based framework can provide effective and efficient payment systems in the EU. We would suggest that the EU should not seek to develop one framework in preference to the other. Both can exist in parallel. Policymakers have an important role to play in removing barriers to growth, facilitating innovation and enabling innovative payments methods to succeed. Actual development of innovative payment methods should then be driven by industry, with the market offering a range of payment solutions, and merchants and users determining which they wish to use based on their specific needs and preferences.

Consumer Protection

As part of the Commission's review, we would encourage policy makers to consider how different methods of making and taking payments offer different levels of protections to consumers. Whilst needing to be considered alongside other issues, ensuring that consumers are afforded appropriate protections in the event that something goes wrong with their purchase is of great importance. While new, innovative payment solutions can enhance the consumer experience and drive competition, they may not provide the same levels of protection provided by established payment mechanisms. Barclays would therefore recommend that alongside supporting the development of innovative payment solutions, the Commission should consider how to ensure high standards of customer protections across the EU payments landscape and that where differences are required, these are understood by all parties.

PSD2 – Open Banking

Barclays has been a consistent and vocal advocate of the advantages that Open Banking and PSD2 will bring to consumers. PSD2 and Open Banking have been successful in opening up access to data, allowing third party providers (TPPs) to securely access consumer banking data in a way that was not previously possible. This access is facilitating increased innovation and has led to a number of new TPP business models, leading to increased competition. However, PSD2 remains a relatively new piece of legislation. It is therefore important that industry is provided with sufficient time to innovate and adapt to the new market opportunities based on the existing framework, before the Commission seeks to make further changes.

Cross Border Payments

Barclays supports policymaker efforts that seek to drive standardisation in payments within and across regions, remove friction, and facilitate international payments for consumers and businesses.

While there may still be room for improvement, Barclays would suggest that international payments may not be as slow or expensive as the Commission suggests. Looking at SWIFT gpi statistics, the majority of payments are being processed very quickly and this will only improve over time as more banks participate in SWIFT gpi. While we do not necessarily believe participation in SWIFT gpi should be mandated, we believe greater participation would help reduce costs and increase speed of cross border payments. We also expect initiatives such as ISO20022 to help reduce the overall cost of international payments. We would also note that there are new market entrants which focus specifically on international payments or on facilitating cheaper and quicker international payments.

Given there are a number of industry initiatives seeking to improve cross-border payments, we believe the Commission should wait to see how the landscape evolves before considering further legislation.

Questions for the General Public

Q1-9 not answered by Barclays.

Questions for All Stakeholders

10. Please explain how the European Commission could, in the field of payments, contribute to reinforcing the EU's economic independence:

- Barclays has not responded to this question.

11. Please explain how the retail payments strategy could support and reinforce the international role of the euro

- Barclays has not responded to this question.

A. Fast, convenient, safe, affordable and transparent payment instruments with pan-European reach and "same as domestic" experience

<u>Instant payments as the new normal</u>

12. Which of the following measures would in your opinion contribute to the successful roll-out of pan-European payment solutions based on instant credit transfers?

	1 (irrelevant)	2 (rather not relevant)	3 (neutral)	4 (rather relevant)	5 (fully relevant)	N/a
a. EU legislation making Payment Service Providers' (PSP) adherence to SCT Inst. Scheme mandatory				/		
b. EU legislation mandating the replacement of regular SCT with SCT Inst			/			
c. EU legislation adding instant credit transfers to the list of services included in the payment account with basic features referred to in Directive 2014/92/EU			/			
d. Development of new payment schemes, for example SEPA Direct Debit Inst. Scheme or QR interoperability scheme2		/				
e. Additional standardisation supporting payments, including				/		

standards for technologies used to initiate instant payments, such as QR or others						
f. Other						

a. Please specify what new payment schemes should be developed according to you:

Barclays considers that there are already a range of ways consumers can make payments, including relatively 'new' payment methods introduced under the second Payment Services Directive (PSD2), for example, payment initiation services through Third Party Providers (TPPs). While Barclays supports the development of an EU instant payments based framework, we would encourage the Commission to consider how it can promote the uptake of these fledgling services, providing the best opportunity to demonstrate their potential benefits to consumers and merchants, before focusing on the development of an additional new payments scheme. Furthermore, we believe that the Commission could also use the upcoming Retail Payments Strategy as an opportunity to improve the existing framework where necessary, for example, ensuring high standards of customer protections exist across the EU.

Regarding SCT Instant, Barclays considers that the framework needs to become well established and have near complete reachability before new payment initiation methods can be developed. Ultimately, until the underlying payment rails are established, further use cases and schemes which can tap into the scheme are premature. Embedding SCT Instant should be a priority for the coming years so that innovative solutions can be built on top of the rails.

b. Please specify what kind of additional standardisation supporting payments should be developed:

Barclays believes that once SCT Instant has been more widely adopted, creating a standardised approach for push payment initiation through online channels and retail POS machines would likely increase the number of use cases.

Barclays believes it is the layering of innovative payment solutions on top of the payment rails that will ultimately benefit the consumer. It is important that any such payment solutions built on top of the EU Instant Payment rails, e.g. QR codes, are developed to be pan-EU solutions that work across Member State borders. This will require appropriate standardisation to avoid multiple approaches being taken in different Member States, however such standardisation should be market led, driven by the industry, rather than through regulation. Ideally, it should also be aligned (and potentially interoperable) with other standards being developed internationally.

c. Please specify what other measures would contribute to the successful rollout of pan-European payment solutions based on instant credit transfers:

Barclays believes that enforced interoperability of Clearing and Settlement Mechanisms (CSMs) would contribute to the successful rollout of pan-European payment solutions based on instant credit transfers. Barclays would suggest that the European Banking Authority (EBA) should play a role in connecting local CSMs, as has been the case with SEPA. While interoperability is key, this should be enabled through a number of approaches, rather than driving for Target Instant Payment Settlement (TIPS) to be the sole CSM.

Furthermore, a European wide consensus on when PSPs must adhere to the new scheme would help contribute to the rollout, rather than locally agreed deadlines and a patchwork of reachability.

13. If adherence to SCT Inst. were to become mandatory for all PSPs that currently adhere to SCT, which of the possible following end-dates should be envisaged?

- By end 2021
- By end 2022
- By end 2023
- Other – please specify
- Don't know / no opinion / not relevant

– **13.1 Please explain your answer to question 13.**

Based on experience of building solutions for SEPA, PSPs need time to arrange budget and plan for technical build, which is particularly complicated due to the need to adapt systems for 24/7 connectivity. Non-Euro countries would require more time to develop their solutions due to the need to allow for FX capability in order to permit use of non-euro bank accounts for the majority of consumers.

Banks currently have lots of mandatory regulatory change development underway, for example, the on-going development of ISO20022 for high value Schemes banks. Policymakers should consider the cumulative impact of mandatory regulatory change and ensure sufficient time and resource would be available to deliver any further change. Barclays would suggest that end-2023 at the earliest for non-Euro countries would be an appropriate adherence timeframe. Policymakers should also consider the current health crisis in that banks' capacity and resources are currently fully focused on supporting the economic recovery effort.

14. In your opinion, do instant payments pose additional or increased risks (in particular fraud or money laundering) compared to the traditional credit transfers?

- Yes
- No
- Don't know / no opinion / not relevant

– **14.1 If you think instant payments do pose additional or increased risks compared to the traditional credit transfers, please explain your answer:**

Instant payments involve an element of increased risk of fraud and money laundering given the irrevocability of payments and there being less time and opportunity to investigate potential fraud or errors.

However, the Faster Payments system has been in place for a number of years in the UK, and while this risk has existed, banks have actively introduced enhanced monitoring and control measures to manage the risk to an acceptable level.

We note that the degree to which speed of payments involves the potential for customer detriment is related to the customer protections that sit alongside it. For example, there is no chargeback mechanism in place for instant payments, so customers may be exposed to increased risk. This is the case in Authorised Push Payment (APP) scams, where customers are socially engineered into transferring funds to a fraudster. While progress is being made to protect consumers in the UK through the Contingent Reimbursement Model (see response to Q25), customers have historically had little protection when transferring funds using instant payment mechanisms in this way. It may be helpful for the Commission to consider what additional steps should be taken to ensure that the correct levels of consumer protection are available on different payment methods.

15. **As instant payments are by definition fast, they could be seen as aggravating bank runs. Would an ad-hoc stopgap mechanism be useful for emergency situations, for example a mechanism available to banks or competent authorities to prevent instant payments from facilitating faster bank runs, in addition to moratorium powers (moratorium powers are the powers of public authorities to freeze the flow of payments from a bank for a period of time)?**
    - Yes
    - No
    - Don't know / no opinion / not relevant

    – **15.1 If you think an ad-hoc stopgap mechanism would be useful for emergency situations, please explain your answer and specify under which conditions**

Barclays would note that SCT already offers the potential to make a same-day payment, with no amount limit, so the SCT Inst scheme may not actually increase the risk of a bank run significantly.

Barclays considers that the ultimate responsibility for managing the risk of bank runs sits with the relevant competent supervisory and resolution authorities and should not be the responsibility of the schemes. Barclays believes an ad-hoc stop-gap mechanism, such as the ability for banks to cap the amount that can be debited from an account, could be useful in managing any risk in an emergency, and to cover situations where banks might not be able to implement this control themselves, but this would have to apply across all payment types.

16. **From a merchant's perspective, payment solutions based on instant credit transfers may require adjustments to the merchant's current IT, accounting, liquidity management systems, etc. On the other hand, current card-based payment solutions do not require such adjustments. Merchant service charges may also differ, depending on the type of payment solution offered to the merchant (card-based or SCT-based). Taking this into account, what would be generally the most advantageous solutions for EU merchants, other than cash?**
    - Card-based solutions

- SCT Inst.-based solutions
- Other – please specify
- Don't know / no opinion / not relevant

– **16.1 Please explain your answer to question 16**

The most advantageous payment solutions for EU merchants will vary across the merchant population. As discussed in our answer to Q17, merchant focus will be dependent on their specific experiences and business needs.

The currently card based payment framework is tested and reliable and offers ubiquity with very high levels of merchant and consumer use, quick authorisation of payments to merchants, and provides defined protections governed by the card schemes e.g. chargebacks.

In the longer term, SCT instant payment based solutions may offer an additional or alternative payment method for merchants, that may enable them to receive funds in a shorter timeframe. We would note however, that a comprehensive move to an EU instant payments based framework may require significant disruption and adaptation of systems, and it would take significant time to for the method to reach the same levels of ubiquity as the current card based framework.

Both the current card payment framework and an EU instant payment based framework can provide effective and efficient payment systems in the EU. We would note that the EU should not seek to develop one framework in preference to the other. Both can exist in parallel. Policymakers have an important role to play in removing barriers to growth, facilitating innovation and enabling both frameworks to succeed. However, development of each framework should be driven by industry, with the market offering a range of payment solutions, and merchants and users determining which to use. It is important that policymakers do not seek to drive uptake of an EU instant payment based framework through regulation.

We would also note that industry has undertaken significant change programmes to implement the provisions introduced by PSD2. It is important that the Commission provides sufficient time for these changes to 'bed in' before it seeks to analyse the impact on the market, and considers further change.

17. What is in your view the most important factor(s) for merchants when deciding whether or not to start accepting a new payment method? Please rate each of the following proposals:

	1 (unimportant)	2 (rather not important)	3 (neutral)	4 (rather important)	5 (fully important)	N/a
Merchant fee				/		

The proportion of users using that payment method					/	
Fraud prevention tools /mechanisms				/		
Seamless customer experience (no cumbersome processes affecting the number of users completing the payment)					/	
Reconciliation of transaction					/	
Refund services					/	
Other						

– **17.1 Please explain your answer to question 17**

Barclays believes that all of the factors identified above will be important considerations for merchants. Naturally, certain factors may be valued differently by different merchants. For example, a merchant who has suffered fraud may consider fraud prevention tools as more important. While the cost of a payment method may be important for merchants, Barclays believes the most important factors for merchants are customer experience, simplicity, a broad user base, and ensuring the transaction completes successfully. Relying on a payment method with a limited user base may mean fewer transactions for a merchant. An efficient refund process is also highly valued by merchants, as this can save them a significant amount of time. Ultimately, Barclays considers that a payment mechanism needs to be seamless, well-priced and have a wide user base for it to be attractive to merchants.

Other elements that may be important to merchants include:

- Product servicing
- Marketing product to consumers of payment method
- Integration effort and timescales
- Cost of development
- On-going costs such as subscription fees

18. Do you accept SEPA Direct Debit (SDD) payments from residents in other countries?

- ○ Yes, I accept domestic and foreign SDD payments
- ○ No, I only accept domestic SDD payments
- ○ I do not accept SDD payments at all
- ○ Don’t know / no opinion / not relevant

– **18.1 If you do accept SEPA Direct Debit (SDD) payments from residents in other countries, please explain why:**

Barclays considers that SEPA is intended to provide a zone within which all payments are treated the same wherever possible. In this vein, Barclays believes it is against the spirit of the SEPA regulations to not accept cross-border SEPA Direct Debits.

Leveraging on the development of digital identities (digital ID)

19. Do you see a need for action to be taken at EU level with a view to promoting the development of cross-border compatible digital identity solutions for payment authentication purposes?

- Yes, changes to EU legislation
- Yes, further guidance or development of new standards to facilitate crossborder interoperability
- Yes, another type of action
- No, I do not see a need for action
- Other – please specify
- Don't know / no opinion / not relevant

– **19.1 Please explain your answer to question 19**

Barclays believes that a pan-EU system of digital identity, recognised by regulators across the EU, and providing consumers the ability to seamlessly prove their identity in a different country would be a very powerful tool.

We would note that progress is already being made in this direction, for example the EU's eIDAS interoperability framework for Digital IDs, and to an extent the PSD2 Strong Customer Authentication (SCA) system.

While SCA has made some progress, the SCA checks validate that the person providing the payment instructions is the person who set up the initial credentials at the onboarding stage. The next step – and one for digital identity – is to help determine the identity of the person who set up the credentials i.e. the true identity of the customer.

If regulations made reference to a EU standard for interoperability, such as eIDAS (which facilitates interoperability by aligning different national identity schemes and the levels within them to four eIDAS levels), this effectively aligns different national identity schemes so that the user can do the same thing in different countries with their digital identity. This would then enable the passporting of digital identities without the need to re-KYC, removing the negative customer experience & business process cost, in every EU geography.

To provide a real world example, an Estonian ID-kaart digital identity at a 'Medium' Level of Assurance and a UK Verify identity at "Medium" Level of Assurance can both be used to file a UK Tax Self-Assessment because they have both been certified as eIDAS and are therefore considered to be of equal standard for that service. In the financial services sector, under UK AMLD5 regulations, an eIDAS compliant 'Medium' identity could be used to satisfy bank KYC obligations. Therefore, an

Estonian ID-kaart digital identity could be used to on-board a UK financial service provider, and that UK Verify digital identity to onboard to an Estonian provider (if their regulations allow it).

The hurdle then becomes having digital identity frameworks that are eIDAS compliant, which most EU Member States now have.

Promoting the diversity of payment options, including cash

20. What are the main factors contributing to a decreasing use of cash in some countries EU countries? Please rate each of the following factors.

	1 (irelevant)	2 (rather not relevant)	3 (neutral)	4 (rather relevant)	5 (fully relevant)	N/a
Convenience of paying digitally					/	
The increasing importance of e-commerce					/	
Contactless payments					/	
The shrinking availability of ATMs	/					
The cost of withdrawing cash		/				
Digital wallets					/	
Cash backs for card payments		/				
EU or national Regulation			/			
Other						

a) Please specify which EU or national regulation(s) may contribute to a decreasing use of cash in some countries in the EU

While we do not consider that PSD2 is contributing to a decreasing use of cash, we would note that PSD2 currently does not exclude cashback without purchase from being a payment service (whereas cashback with purchase is excluded from being a payment service). As per our answer to Question 22, we would be supportive of the EC amending the legislation to classify cashback without purchase as an unregulated service.

b) Please specify what other factor(s) may contribute to a decreasing use of cash in some countries in the EU:

Barclays considers that the following factors are contributing to an increase in consumers choosing to pay via card or digital means (and therefore resulting in a decrease in the use of cash):

- Increased convenience (e.g. speed and ease);
- Increased security (due to protections offered by some methods against theft and fraud);
- Increased acceptance (with more merchants accepting card and digital payments);

- The growth of online payments (which are taking a greater proportion of sales, and necessarily will be card or digital in nature);
- The growth in contactless transactions, which replace many of the smaller payments that would have previously been made in cash.

Regarding the factors listed above as contributing to a decreased use of cash, we would make the below points:

- The availability of ATMs – it is our experience that the availability of ATMs is a function of demand for cash, as opposed to a driving factor.
- The cost of withdrawing cash – we do not consider this to be a significant factor in the UK, as for the majority of customers in the UK, access to cash is free through bank ATM machines. However, we acknowledge that this practice is not necessarily the same across Europe, with some countries, e.g. Germany, having groups of banks which allow free access to cash through ATMs, but charg if the customer elects to go to the ATM of a bank that is not in the group.
- Cash back for card payment – we do not consider cashback for card payments i.e. cash rewards (spend £100, get £3 back) to be a factor contributing to a decreasing use of cash. Recent changes to Interchange rules have reduced the ability of issuers to reward customers for their card payments. However, from the perspective of the ability to obtain cashback, or withdraw cash, as part of card purchase , we consider this functionality as promoting the use of cash.

Beyond the factors listed in the question, Barclays considers the primary reason for the decreasing use of cash is a change in consumer and business behaviour towards digital solutions, driven by an increased ease (speed, convenience) of making and taking payments digitally.

Other factors which may contribute to a decreasing use of cash include:

- Growth in digital-only banks with no physical cash infrastructure
- Move to more digital payments for some Government services/benefits
- Government moves to reduce financial crime, for example, cash-in-hand payments detracting from tax revenues
- Due to increased costs in handling cash, some businesses are moving away from cash and going cashless.
- Increase of e-commerce businesses, and the rise of click and collect.
- Pandemics and cash being perceived as a potential transmitter of a virus or diseases.

21. Do you believe that the EU should consider introducing measures to preserve the access to and acceptance of cash (without prejudice to the limits imposed by Member States for large cash transactions)

- o Yes
- o No
- o Don’t know / no opinion / not relevant

– **21. Please explain your answer to question 21**

In view of the different circumstances across the EU, we believe access to cash is an issue for national Governments, and intervention at EU level is not required. We note that the UK Government has already announced its intention to introduce access to cash legislation in the course of this Parliament.

22. Which of the following measures do you think could be necessary to ensure that cash remains accessible and usable by EU citizens? Please rate each of the following proposal.

	1 (irrelevant)	2 (rather not relevant)	3 (neutral)	4 (rather relevant)	5 (fully relevant)	N/a
Promote a sufficient coverage of ATMs in the EU, including in remote areas				/		
EU legislation adding 'free-of charge cash withdrawals' to the list of services included in the "payment account with basic features" referred to in the Payment Accounts Directive	/					
Ensure that cash is always accepted as a means of payment at point of sale				/		
Other						

- **22.1 Please specify what other measures would be necessary to ensure that cash remains accessible and usable by EU citizens**

Reductions in cash usage will continue as digital payments become more convenient and widespread. However, the migration to digital channels may affect some customer cohorts in different ways, and some of our customers choose to transact with cash now and we expect this to continue into the future. We recognise our responsibility to ensure these customers continue to have access to cash, but can identify a number of challenges to this continued provision that need to be addressed, including through legislative options.

As cash transactions decline it is important for industry to be able to pursue new lower cost and sustainable solutions to provide cash to consumers. Facilitating cashback without purchase in local retailers will help drive greater efficiencies in the provision of cash, while easing the pressure on the branch infrastructure to provide this service. For consumers, it is another source of free cash access and provides the continued ability to access cash even if the local bank branch is shut or the ATM is out of order. At present cashback is a regulated activity and PSD2 does not provide an exemption for cashback without purchase. We would be supportive of the EC amending the legislation to classify cashback without purchase as an unregulated service.

The economics of a largely fixed-cost wholesale cash infrastructure are also becoming increasingly unviable in light of declining cash volumes and demand. It is important that banks are able to simplify the cash infrastructure and make it more efficient through a utility structure. In the UK, the Bank of England is overseeing a piece of work to develop an industry owned utility to streamline the wholesale supply chain. This type of collaboration should be encouraged by policymakers looking for long-term solutions to the future sustainability of the cash infrastructure.

More generally, the financial services industry faces a challenge with continually declining usage of ATMs. To ensure the long term sustainability of the cash it is important for Banks to have the ability to tailor cash solutions to local transactional demand, which may mean less overall ATMs but better overall geographic coverage. Policy or legislation should not seek to impose prescriptive channel-specific requirements on Banks.

Longer term, we see a transition to shared provision as the most effective, resilient and efficient means of ensuring continued access to cash in areas that need it, and believe responsibility for this obligation should be shared widely across the financial services industry.

B. An innovative, competitive and contestable European retail payments market

PSD2 implementation and market developments

23. Taking into account that experience with PSD2 is so far limited, what would you consider has been the impact of PSD2 in the market so far?

	1 (strongly disagree)	**2 (rather disagree)**	**3 (neutral)**	**4 (rather agree)**	**5 (fully agree)**	**N/a**
PSD2 has facilitated access to the market for payment service providers other than banks					/	
PSD2 has increased competition					/	
PSD2 has facilitated innovation					/	
PSD2 has allowed for open banking to develop					/	
PSD2 has increased the level of security for payments					/	
Other – please specify						

- **23.1 Please explain your answer to question 23**

Barclays has been a consistent and vocal advocate of the advantages that Open Banking and PSD2 will bring to consumers, and note the accomplishments achieved to date. PSD2 and Open Banking have been successful in opening up access to data, allowing third party providers (TPPs) to securely access consumer banking data in a way that was not previously possible. This access is facilitating increased innovation and has led to a number of new TPP business models, leading to increased competition.

However, PSD2 remains a relatively new piece of legislation, and it is therefore important that industry is provided with sufficient time to adapt to the new market opportunities and innovate based on the existing PSD2/Open Banking model, rather than seeking to mandate additional requirements at this stage.

With the implementation of Open Banking in the UK ahead of broader EU implementation of PSD2, Barclays would note that the UK is further ahead in the embedding process of the new regimes, which therefore may provide greater insight into the impact of PSD2 on the broader EU market.

While regulation can facilitate innovation, we would note that market demand is required for innovation to take place.

24. The payments market is in constant evolution. Are there any activities which are not currently in the list of payment services of PSD2 and which would raise specific and significant risks not addressed by current legislation?

- ○ Yes
- ○ No
- ○ Don't know / no opinion / not relevant

- **24.1 Please explain your answer to question 24**

Barclays considers that the list of payment services listed as in scope of PSD2 is relatively comprehensive. We are not aware of any major activities that raise significant risks which are not addressed by the legislation.

However, one area relating to PSD2 where further clarity and guidance could be provided is in respect of the definition of Account Information Services (AIS), to clarify which models would be within scope of regulation. This would ensure that consumers are protected regardless of the way a TPP uses their data, which is particularly important in respect of onward provisioning of account information (e.g. between regulated and unregulated third parties).

We would also note that the broader digital financial ecosystem is evolving, with new types of firm e.g. fintechs and firms outside the traditional FS sector, increasingly engaging in financial services activity. It is important that the regulatory framework evolves in parallel to ensure it remains fit for purpose for a digital ecosystem. It is important that a level playing field exists for all service providers providing the same or similar services. Policymakers should look to follow the principle of same service, same risks, same rules.

25. PSD2 introduced strong customer authentication to mitigate the risk of fraud or of unauthorised electronic payments. Do you consider that certain new developments regarding fraud (stemming for example from a particular technology, a means of payment or use cases) would require additional mitigating measures to be applied by payment services providers or users?

- Yes
- No
- Don’t know / no opinion / not relevant

- **25.1 Please explain your answer to question 25 and specify if this should be covered by legislation**

Barclays believes the standard of protection provided by PSD2’s Strong Customer Authentication (SCA) regime is very strong. We envisage that the SCA regime will have a significant impact in reducing instances of fraud and in reducing unauthorised electronic payments. However, we note that the SCA framework is not yet fully implemented across the market, so we do not yet have a full picture to make an assessment. Given the industry is still in the process of implementing the SCA requirements, Barclays does not believe any additional requirements should be introduced at this stage. Furthermore, we would note that the current RTS are technology-neutral and so do allow some scope for innovation/discretion around fraud management, such that additional mandatory requirements may not be necessary.

While SCA may ultimately prove effective in preventing fraud and unauthorised payments, we would note the changing nature of fraud and scams, away from fraudulent payments made from a customer’s account by a fraudster, towards authorised payments made by a customer themselves who has fallen victim to socially engineering scam. The new SCA regime would prove to be less effective in preventing such fraud and scams. Against the context of a move towards an EU instant payment system, we would encourage the Commission to consider what action it can take to prevent these so called ‘Authorised Push Payment’ scams in the first place, as well as any action to reimburse victims of sophisticated scams who have taken all the right steps to protect themselves. The UK has made a good start in this space, introducing the Contingent Reimbursement Model framework that ensures victims are reimbursed in the event that both they and the bank have taken appropriate steps to prevent any fraudulent payments. The Commission should consider whether similar protections could be introduced at EU level.

However, we would also note that other players beyond the financial services sector often play a role in facilitating fraud and scams, for example, the use of online platforms and SMS channels to socially engineer victims before payment is ultimately made through a PSP. We would therefore also encourage the Commission to consider what action could be taken to ensure greater responsibility and obligations on sectors that facilitate such APPs scams through vulnerabilities in their platforms e.g. Telcos, Social Media platforms, Online Marketplaces.

26. Recent developments have highlighted the importance of developing innovative payment solutions. Contactless payments have, in particular, become critical to reduce the spread of viruses. Do you think that new, innovative payment solutions should be developed?

- o Yes
- o No
- o Don't know / no opinion / not relevant

– **26.1 If you answered yes to question 26, please explain your answer:**

Consumers have an increasingly variety of methods to make payments, through an increasingly varied number (and type) of provider. This innovation in technology and payment solutions brings benefits for customers, helping enhance customer experience and drive competition. Barclays therefore does believe that new and innovative payment solutions should continue to be sought, but it is important that any innovation is market-led based on user demand, rather than driven by regulation.

However, as new propositions are developed, it is vital that standards of consumer protections provided by existing payment methods are maintained. For example, existing payment mechanisms offer reasonably well understood levels of purchase protection (e.g. chargeback for debit cards, 'Section 75' UK protection for purchases made using credit cards). Newer payment methods however, e.g. through Payment Initiation Service Providers (PISPs), may not provide the same levels of protection. While firms may choose to offer guarantees for PISP payments, these protections will not be offered by all providers. Similarly, some newer payment solutions involve the disintermediation of the customer from the card provider, removing the customer's rights in the process. Providers of these solutions may seek to plug the gap with their own protection arrangements but these arrangements may not result in like-for-like protections and as they are voluntary – not all providers will do this.

There is a risk therefore that new innovative payment solutions may erode the standards of protection currently afforded to customers, and that customers may be unwittingly sacrificing their standards of protection to benefit from an innovative customer experience. Barclays would therefore recommend that alongside supporting the development of innovative payment solutions, the Commission explores options to maintain protection levels, or to highlight to customers where standards of protection are materially different.

It is important that policymakers also consider the issues of fraud and liability in the context of new innovative payment solutions. If, for example, a new innovative payment solution provider introduces increased risk to the system, any liability for fraud or data breach should sit with that provider, rather than with the institution the PISP is engaging.

27. Do you believe in particular that contactless payments (based on cards, mobile apps or other innovative technologies) should be further facilitated?

- o Yes
- o No
- o Don't know / no opinion / not relevant

– **27.1 Please explain your answer to question 27. (Please consider to include the following elements: how would you promote them? For example, would you support an increase of the current ceilings authorised by EU legislation? And do you believe that mitigating measures on fraud and liability should then be also envisaged?):**

Barclays supports recent moves to increase the contactless payments limit to £45/€50 in response to the Covid 19 pandemic, and we believe contactless payments should be further facilitated going forward.

To mitigate potential fraud risks of greater contactless payments, the Commission should consider appropriate two factor authentication controls to enable tiered contactless limits, for example, using biometric verification via smartphone.

However, we would note that it is very important to maintain access to payments for those that don't use digital solutions. Provision of cash and ensuring acceptance of cash as a payment method is vital for as long as there are segments of society who rely on them.

Improving access to payment accounts data under PSD2

28. Do you see a need for further action at EU level to ensure that open banking under PSD2 achieves its full potential?

- o Yes
- o No
- o Don't know / no opinion / not relevant

– **28.1 If you do see a need for further action at EU level to ensure that open banking under PSD2 achieves its full potential, please rate each of the following proposals:**

	1 (ireleva nt)	**2 (rather not relevan t)**	**3 (neutra l)**	**4 (rather ireleva nt)**	**5 (fully relevan t)**	**N/a**
Promote the use of different authentication methods, ensuring that the ASPSPs always offer both a redirection based and an embedded approach	**/**					

Promote the development of a scheme involving relevant market players with a view to facilitating the delegation of Strong Customer Authentication to TPPs	/					
Promote the implementation of consent dashboards allowing payment service users to manage the consent to access their data via a single interface					/	
Other – please specify.						

Regarding the above proposals, Barclays would make the following comments:

- The proposal to promote the use of different authentication methods, ensuring that the ASPSPs always offer both a redirection based and an embedded approach:
    - Barclays considers the most important element is to ensure that there is always a suitable means of authentication. We would caution against the Commission being overly prescriptive in requiring ASPSPs to provide both a redirection based and an embedded approach. We note that the EBA has recently published a further Opinion on obstacles for TPPs under PSD2. While guidance can be helpful to firms looking to understand the intentions behind regulation, we would note that continuously updating guidance can make it difficult for industry to move to implementation.

- The proposal to promote the development of a scheme involving relevant market players with a view to facilitating the delegation of Strong Customer Authentication to TPPs:
    - Barclays does not support proposals that would introduce mandatory delegation of SCA to TPPs, as it is the ASPSP that ultimately retains the risk. The operation of SCA is a commercial proposition through which firms will look to provide the most seamless customer experience and compete with competitors. Mandatory delegation of SCA to TPPs is therefore not appropriate. Any delegation should be via agreement with TPPs only (and subject to contract).

- The proposal to promote the implementation of consent dashboards allowing payment service users to manage the consent to access their data via a single interface:
    - Barclays would support a proposal to introduce consent dashboards enabling consumers to manage all the consents they may have provided through a single interface. We note that such a tool is already on offer in the UK, which may demonstrate that industry believes it a sensible measure to implement. For Open Banking / PSD2 to reach its full potential consumers have to have full awareness of where and how their data is being used and ultimately be able to easily rescind their consent if they decide they no longer wish to share their data.

29. Do you see a need for further action at EU level promoting the standardisation of dedicated interfaces (e.g. Application Programming Interfaces – APIs) under PSD2?

- Yes
- No
- Don't know / no opinion / not relevant

– **29.1 Please explain your answer to question 29**

Barclays believes that it is imperative that any sharing of data is based on a secure and stable transmission mechanism. As such, Barclays strongly believes that the sharing of data under the PSD2 framework should be undertaken through safe and secure APIs, rather than other potentially less secure means such as screen scraping. An API led approach enables firms to send a clear message to their customers that they should never be placed in a position where they provide their account details to a third party – this is an important message to land to help protect customers against fraud.

Barclays considers that the development of Open Banking in the UK benefited from having a single central source (the Open Banking Implementation Entity) developing the APIs to be used in the framework.

<u>Adapting EMD2 to the evolution of the market and experience in its implementation</u>

30. Do you consider the current authorisation and prudential regime for electronic money institutions (including capital requirements and safeguarding of funds) to be adequate?

- Yes
- No
- Don't know / no opinion / not relevant

– **30.1 Please explain your answer to question 30**

Against the context of an increasingly digital financial ecosystem, Barclays does not consider that the current regulatory framework applying to electronic money institutions (EMIs) is adequate. Electronic Money institutions are increasingly being used by consumers as day to day current accounts in the same way as those provided by regulated credit institutions. However, EMIs are not subject to the same obligations as fully regulated credit institutions meaning their prudential frameworks do not provide the same level of protection. For example, EMIs can be very lightly capitalised placing the firm at greater risk of collapse, and whilst EMIs may have safeguarding obligations over consumer funds, consumers do not benefit from deposit guarantee schemes under the Deposit Guarantee Scheme Directive.

Given the increased prominence of electronic money and EMIs in the digital financial ecosystem, Barclays urge the Commission to take action to ensure a level playing field in terms of prudential customer protection, following the principle of same service, same risk, same rules.

– **30.2 If you do you not consider the current authorisation and prudential regime adequate, what are most relevant factors as to why the prudential regime for electronic money institutions may not be adequate?**

	1 (irelevant)	2 (rather not relevant)	3 (neutral)	4 (rather irelevant)	5 (fully relevant)	N / a
Imbalance between risks and applicable prudential regime					/	
Difficulties in implementing the prudential requirements due to unclear or ambiguous legal requirements						
Difficulties in implementing the prudential requirements stemming from practical aspects (e.g. difficulties in obtaining an insurance for the safeguarding of users' funds)						
Other – please specify.						

31. Under PSD2 and EMD2, the authorisation regimes for the provision of payment services and the issuance of E-money are distinct. However, a number of provisions that apply to payment institutions apply to electronic money institutions mutatis mutandis. Would you consider it useful to further align the regime for payment institutions and electronic money institutions?

- Yes, the full alignment of the regimes is appropriate
- Yes, but a full alignment is not appropriate because certain aspects cannot be addressed by the same regime
- No
- Don't know / no opinion / not relevant

– **31.1 Please explain your answer to question 31**

Given the services provided under PSD2 and EMD2 are similar, it would be appropriate to align the regulatory regimes.

– **31.2 Please state which differences, if any, between payment institutions and electronic money institutions might require, a different regime:**

Payment solutions of the future

32. Do you see "programmable money" as a promising development to support the needs of the digital economy?

- ○ Yes
- ○ No
- ○ Don't know / no opinion / not relevant

32.1 If you do see "programmable money" as a promising development to support the needs of the digital economy, how and to what extent, in your views, could EU policies facilitate its safe deployment?

Barclays agrees that 'programmable money' is a promising development to support the needs of the EU's digital economy. Potential use cases of programmable money could include:

- payments being integrated with appliances at home or tills at the shops.
- tax payments being routed to Government tax collection departments at the point of sale.
- electricity meters paying suppliers directly, based on the amount of power used
- shares automatically paying dividends directly to shareholders

Of course, it is important that the EU looks to facilitate and enable the development of programmable money but it should ensure it does so in a controlled manner with appropriate protections in place. Barclays therefore believes development of innovations like programmable money should be undertaken in a controlled sandbox environment, with the European Forum on Innovation Facilitators (EFIF) being an appropriate group to coordinate efforts. The Commission should also look to engage with third country jurisdictions in order to leverage best practices through for example, the Global Financial Innovation Network (GFIN).

C. Access to safe, efficient and interoperable retail payment systems and other support infrastructures

Interoperability of instant payments infrastructures

33. With regard to SCT and SDD, under EU law it is the obligation of operators or, in absence thereof, of the participants in the retail payment systems, to ensure that such systems are technically interoperable with the other retail payment systems. With regard to SCT Inst., do you see a role for the European Commission in facilitating solutions for achieving this interoperability in a cost-efficient way?

- ○ Yes
- ○ No
- ○ Don't know / no opinion / not relevant

– **33.1 Please explain your answer to question 33:**

Barclays considers it important that retail payment systems are technically interoperable with other retail payment systems. While we do not consider there is a need for the Commission to directly intervene to achieve this, Barclays does believe the Commission should continue to push for CSMs to agree interoperability with each other. Currently, many CSMs are focussed on developing their domestic markets without sufficient regard to cross-border reachability. We would also note that current efforts to drive usage of TIPS are not helping efforts to drive inter-operability and market competition.

<u>Ensure a fair and open access to relevant technical infrastructures in relation to payments activity</u>

34. In some Member States, legislation obliges providers of technical services supporting the provision of payment services to give access to such technical services to all payment service providers. Do you agree with the following statements?

	1 (strongly disagree)	2 (rather disagree)	3 (neutral)	4 (rather agree)	5 (fully agree)	N/a
Existence of such legislation in only some Member States creates level playing field risks				/		
EU legislation should oblige providers of technical services supporting the provision of payment services to give access to such technical services to all payment service providers				/		
Mandatory access to such technical services creates additional security risks			/			
Other – please specify						

– **34.1 Please explain your answer to question 34**

Barclays believes the existence of legislation in some Member States and not others may create level playing field risk. It is vital that a level playing field exists for service providers across the EU, which should be very well supervised.

Access to technical services on an equal and fair basis would facilitate innovation, boost competition and would provide consumers with greater choice. We therefore welcome efforts by the Commission to consider how to introduce greater innovation and competition in the payments landscape

– **34.2 If you think that EU legislation should address this issue, please explain under which conditions such access should be given**

Facilitating access to payments infrastructures

35. Is direct access to all payment systems important for payment institutions and e-money institutions or is indirect participation through a bank sufficient?

- Yes, direct participation should be allowed
- No, indirect participation through banks is sufficient
- Don't know / no opinion / not relevant

- **35.1 Why do you think direct participation should be allowed?**
  - Because otherwise non-banks are too dependent on banks, which are their direct competitors
  - Because banks restrict access to bank accounts to non-banks providing payment services
  - Because the fees charged by banks are too high
  - Other reasons – please specify
    - N/A - Barclays does not believe direct participation is required.

- **35.2 Why do you think indirect participation through banks is sufficient?**
  - Because the cost of direct participation would be too high
  - Because banks offer indirect access at reasonable conditions
  - Other reasons – please specify.

Barclays supports the EU having competitive and resilient payment systems.

We therefore believe that direct participation in payment systems should be an option for all firms that meet the appropriately stringent standards, designed to ensure stability of the broader system.

We would note that the standards required e.g. significant infrastructure costs / compliance obligations, while appropriate to protect the system, may mean direct access is not feasible for payment and e-money institutions.

While direct access should be available to all parties that can meet the requirements, Barclays considers that indirect access is likely sufficient to enable the vast majority of payment and e-money institutions to innovate and provide services, and increase choice for customers. Indirect access provides PSPs with the functionality, but avoids the challenges that direct access involves. Banks offer indirect access to PSPs at reasonable conditions in a competitive marketplace. Instead of considering direct access for PSPs, there should be greater focus on making it easier for banks to support PSPs to access schemes with limited liability, and to enable a cost efficient service to PSPs.

36. As several – but not all – Member States have adopted licensing regimes for payment system operators, is there a risk in terms of level playing field, despite the existence of central bank oversight?

Barclay has not answered this question.

D. Improved cross-border payments, including remittances, facilitating the international role of the Euro

37. Do you see a need for action at EU level on cross-border payments between the EU and other jurisdictions?

- Yes
- No
- Don't know / no opinion / not relevant

– **37.1 Please explain your answer to question 37**

We recognise that Commission has already taken significant action to improve international payments by bringing so-called "one leg" transactions into scope of the payments regulations under PSD2. We also recognise that there are jurisdictional limits to the Commission's legislative and regulatory sphere of influence and that its legislation only applies to payment service providers subject to the jurisdiction of the EU. The Commission should be mindful of imposing requirements on banks in the EU where equivalent requirements do not apply to banks outside the EU, as this could have the unintended consequence of putting EU banks at a competitive disadvantage. Barclays would note that cost and timeframes for inbound payments from outside the EU into the EU will be determined by the laws of other jurisdictions.

While there may still be room for improvement, Barclays would suggest that international payments may not be as slow or expensive as the Commission suggests. Looking at SWIFT gpi statistics, the majority of payments are being processed very quickly and this will only improve over time as more banks participate in SWIFT gpi. While we do not necessarily believe participation in SWIFT gpi should be mandated, we believe greater participation would help reduce costs and increase speed of cross border payments. Separately, we expect initiatives such as ISO20022 to also help reduce the overall cost of international payments.

We would note that there are new market entrants which focus specifically on international payments or on facilitating cheaper and quicker international payments. Competition and innovation in the sector will help drive down prices and speed up transfer times.

38. Should the Commission play a role (legislative or other) in facilitating cross-border payments between the EU and the rest of the world?

- Yes
- No
- Don't know / no opinion / not relevant

As inferred in question 40, there are a number of industry initiatives seeking to improve cross-border payments. Industry should be left to drive forward these initiatives, and the Commission should wait to see how the landscape changes before considering further legislation. Please also see question 37.

39. Should the Commission play a role in facilitating remittances, through e.g. cost reduction, improvement of services?

- Yes
- No
- Don't know / no opinion / not relevant

– **39.1 Please explain your answer to question 39 and specify which role the Commission should play – legislative or non-legislative:**

40. Taking into account that the industry is developing or implementing solutions to facilitate cross-border payments between the EU and other jurisdictions, to what extent would you support the following actions:

	1 (irelevant)	**2 (rather not relevant)**	**3 (neutral)**	**4 (rather irelevant)**	**5 (fully relevant)**	**N/a**
Include in SEPA SCT scheme one-leg credit transfers					/	
Wide adoption by the banking industry of cross-border payment trackers such as SWIFT's Global Payments Initiative					/	
Facilitate linkages between instant payment systems between jurisdictions						
Support "SEPA-like" experiences at regional level outside the EU and explore possible linkages with SEPA where relevant and feasible						
Support and promote the adoption of international standards such as ISO 20022					/	
Other – please specify.						

– **40.1 Please explain your answer to question 40**

Barclays would support many of the above actions as they are focused on driving standardization within and across regions, removing friction and facilitating payments for consumers and businesses.

There are a number of industry initiatives seeking to improve cross-border payments. Industry should be left to drive forward these initiatives, and the Commission should wait to see how the landscape changes before considering further legislation.

41. Would establishing linkages between instant payments systems in the EU and other jurisdictions

- o Reduce the cost of cross-border payments between the EU and other jurisdictions?
- o Increase the costs of cross-border payments between the EU and other jurisdictions?
- o Have no impact on the costs of cross-border payments between the EU and other jurisdictions?
- o Don't know / no opinion / not relevant
- – **41.1 Please explain your answer to question 41**

Establishing linkages between instant payments systems in the EU and other jurisdictions has the potential to reduce the cost of cross-border payments, based on the assumption that doing so would reduce friction, remove steps and possibly drive automation.

However, seeking to establish instant payment links could also increase costs as it is very difficult for banks to manage their financial crime risk effectively for instant cross-border payments. The costly, and often slow parts of the process would need to be dramatically upgraded to cope with this.