

Outcome of the 2nd Eurosystem E-commerce Payments Forum

On 1 October the Eurosystem held the 2nd E-commerce Payments Forum with the aim of bringing together relevant stakeholders to discuss opportunities for, as well as barriers to, a pan-European e-commerce payments market. The forum also aimed at identifying market needs and possible ways to address them. Following the 1st Eurosystem E-commerce Payments Forum in October 2015, this forum served as a platform to continue the dialogue between the Eurosystem and representatives of both the supply and demand sides of the e-commerce payments market.

The forum was structured to discuss opportunities and challenges for e-commerce payments from the perspective of the main stakeholders: institutional actors, as well as supply and demand-side market participants.

The outcome of the discussions is summarised below in four topics: (i) latest developments in the e-commerce payments landscape; (ii) barriers to European integration; (iii) possible solutions; and (iv) conclusions and way forward.

1. Latest developments in the e-commerce payments landscape

The e-commerce market in Europe has grown significantly since 2015, when the 1st Eurosystem E-commerce Payments Forum took place. Since then, a comprehensive package of legislation has been adopted, including the revised Payment Services Directive (PSD2), the Payment Accounts Directive and legislation forming part of the Digital Single Market strategy for Europe. It is estimated that since that year, the aggregate value of e-commerce has increased by more than 30% in the EU.

At a time when technology has become integrated into consumers' daily life, expectations about means of payment are evolving, leading to an increase in the demand for fast and seamless payment experiences with a high level of security. During the discussion, merchants advocated new payment solutions allowing an easy and convenient checkout – with a high level of security – as these are key factors to improve conversion rates, i.e. the percentage of people exploring webshops that actually become paying customers. In this respect, the relevant provisions of the PSD2 and their national implementation were considered of utmost importance (see the next section on barriers to integration).

E-commerce merchants also emphasised consumers' payment preferences as a key element to be taken into account to ensure higher conversion rates. Therefore, it is important for merchants wishing to do business across the EU to offer payment methods that suit the wide range of payment preferences across Europe.

The increasing level of digitalisation in the economy has changed the customer journey, combining the previously clearly separated digital and physical worlds into one. Nowadays, customers wish to be able to move freely from one channel to another, demanding an omni-channel experience, i.e. purchasing a product online, having it delivered to a pick-up point, and returning it in-store. A similar development of

payment methods is needed to bridge the current gap between the different payment channels in the customer's omni-channel journey, e.g. an in-store refund for a returned good should be possible using the payment method used for the original purchase.

Forum participants indicated that reachability in Europe has only been achieved through international card schemes and through some e-wallets. Consumers often prefer card payments for e-commerce, as these more easily allow the challenging of fraudulent transactions. Nevertheless, several participants were of the view that in terms of conversion rates, payment initiation services (PIS) deliver better rates than card payments, allowing better control and monitoring of technical payment issues. Moreover, the popularity of innovative payment solutions based on push payments (e.g. credit transfers) is increasing among consumers in view of their convenience and is supported by the increasing use of the internet and the access to mobile devices suitable for payments across all demographic groups. This change in consumers' payment behaviour brings efficiency gains in terms of security, given that the originator initiates the transaction. Forum participants from both the supply and demand sides of the market expressed their satisfaction with this trend. E-commerce merchants participating in the forum acknowledged that the PSD2 has helped by enabling access to payment accounts, thus putting the customer in control.

2. Barriers to European integration

With the implementation of the revised Payment Services Directive, **wider collaboration between stakeholders** of the e-commerce payments market is expected and participants considered this collaboration crucial in grasping the benefits from the new legislative and regulatory environment.

Market participants reported that **fragmentation of e-commerce payment solutions** remains a challenge, especially for small and medium-sized enterprises, given the costs and the burden of trading in countries with payment solutions that are not sufficiently harmonised, reflecting significant differences in payment behaviour. The wide range of payment preferences in Europe is not sufficiently addressed by existing payment solutions in a comprehensive way. Existing payment solutions should strive to become usable throughout the EU. Furthermore, innovative payment solutions addressing these diverse payment preferences should emerge, allowing e-commerce merchants to trade seamlessly across Europe. According to market participants, this underscores the importance of innovative payment solutions launched in the EU being built in a way to make them useable across Europe.

Other challenges to the integration of the e-commerce payments market mentioned by participants related to **strong customer authentication** and **identification**, with these topics being directly linked to fraud prevention. On the one hand, e-commerce merchants highlighted a lack of focus on the simplification of checkout processes in the prevailing approach to authentication methods in PIS. On the other hand, supply-side market participants flagged the lack of sufficient customer data necessary to enable transaction risk analysis (TRA) as an obstacle to further simplifying checkout processes. TRA, as a tool for an exemption from the application of strong customer authentication under the PSD2/Regulatory Technical Standards, was acknowledged to be an important instrument that would allow seamless checkout processes. Actors with access to ample data (customer, device and/or location data) may be best placed to facilitate such TRA and thus achieve higher conversion rates, and several participants felt that "platforms" would have a competitive advantage in that respect.

The **lack of standardisation** of PIS, including the communication between the retailer and the payment initiation service provider (PISP), was mentioned as a drawback in terms of their competitiveness. E-commerce merchants participating in the forum expressed the view that fintechs have enabled a better

integration between retailers, customers, PISPs and banks, allowing richer functionalities for online payments via APIs (application programming interfaces), mobile e-wallets and mobile in-app products.

Merchants participating in the forum also reported that the **high costs** and **burdensome fees** of available payment solutions remain a challenge. It was mentioned that international card payment schemes have increased their fees (in some cases to a significant extent) following the introduction of the Interchange Fee Regulation, leading to higher merchant service charges.¹ Moreover, small merchants often face higher transaction fees given their limited negotiation power with credit card companies and non-bank payment service providers.

Finally, the lack of **interoperability of national card schemes** remains a barrier to an integrated European payments market. Some e-commerce merchants regret that there seem to be insufficient (commercial) incentives in place to bring about an increase in interoperability.

3. Possible solutions

Forum participants were of the view that instant payments and access to payment accounts, as defined in the PSD2, offer a complementary solution to some of the problems identified during the discussion. This could, for example, translate into attractive payment solutions offered by PISPs.

In that context, participants were of the view that the conditions under which instant payments are to be offered will be a key determinant for their take-off. Reaching a critical mass of payment service providers offering instant payments and setting attractive fees for consumers were therefore highlighted by several forum participants as key success factors for instant payments.

Participants expressed the view that public authorities should facilitate cooperation between stakeholders so that suitable, integrated payment solutions emerge that fit as many e-commerce use cases as possible. They also considered that further support for harmonisation work from public authorities was needed in order to facilitate cross-border e-commerce payments.

4. Conclusions and way forward

Seamless payment solutions are essential in e-commerce in order to allow frictionless checkout processes and high conversion rates. In recent years the European e-commerce market has grown significantly, allowing already, on average, 24% of the EU population to engage in cross-border online purchases.²

In this context, the PSD2 addresses the crucial need to support innovation, while ensuring the safety and efficiency of retail payments by providing a clear legal framework. Even though the PSD2 provides the legal framework, participants were still concerned about market fragmentation and therefore favoured harmonised and interoperable pan-European solutions, avoiding exclusively national offerings. Innovative products, such as the combination of instant payments and access to payment accounts, offer an attractive opportunity in that respect which could contribute to further growth of the e-commerce market. European providers may use this opportunity to strengthen their competitive position, spark competitive prices for end users, address customers' payment preferences and consequently increase conversion rates.

¹ The impact of the Interchange Fee Regulation seems to differ from country to country. In some countries (e.g. Italy), in contrast to the experiences discussed by forum participants, merchant fees seem to have dropped.

² Eurostat (2017).

Participants furthermore felt that public authorities should play a role in facilitating cooperation between stakeholders, thus helping to overcome existing barriers in the context of secure customer authentication (TRA), standardisation of access to accounts via APIs and the interoperability of national card schemes.

Participants agreed that it would be useful to review developments and progress in the future.

Annex

List of participants

European Central Bank	Mr Helmut Wacket	Chairperson
Amazon Payments	Mr Trisham Chundunsing	
Deutsche Bank	Mr Christian Schaefer	
EPSM	Mr Nicolas Adolph	
EPSM	Mr Lars Tebrügge	
European Payments Council	Mr Etienne Gousse	
Groupement Cartes Bancaires CB	Mr Cédric Sarazin	
Heidelpay GmbH	Mr Mirko Hüllemann	
Heidelpay GmbH	Mr Georg Schardt	
Lyra Network GmbH	Mr Rainer Zettl	
Mollie	Mr Gaston Aussems	
Payconiq	Mr Duke Prins	
PayPal Europe	Mr Stephen Taylor	
PPRO Group	Mr Ralf Ohlhausen	
PRETA SAS	Mr Tarik Zerkti	
Visa	Ms Maike Hornung	
BEUC	Mr Jean Allix	
Easy Use	Mrs Susanne Möhring	
Ecommerce Europe	Ms Juliette Beaulaton	
EMOTA	Mr Maurits Bruggink	
Cairo AG	Mr Gero Furchheim	
IKEA Group	Mr Pascal Spittler	
European Commission	Mr Ralf Jacob	

Nationale Bank van België/ Banque Nationale de Belgique	Ms Axelle Waterkeyn
Deutsche Bundesbank	Mr Dirk Schrader Ms Heike Winter
Eesti Pank	Mr Rainer Olt
Banca d'Italia	Ms Francesca Provini
Banco de España	Mr José Alberto Contreras
Bank of Greece	Mr Yorgos Korfiatis
Banque de France	Mr Tran Huynh
Banque centrale du Luxembourg	Ms Li-Chun Yuan
Hrvatska narodna banka	Ms Vedrana Vranješ
Lietuvos bankas	Ms Jūratė Butkutė
De Nederlandsche Bank	Ms Tessa van Tol
Oesterreichische Nationalbank	Ms Christiane Dorfmeister
Narodowy Bank Polski	Mr Krzysztof Maciejewski
European Central Bank	Ms Ann Börestam
European Central Bank	Mr Iddo de Jong
European Central Bank	Ms Lola Hernandez
European Central Bank	Ms Greta Kasperaviciute
European Central Bank	Mr Adrian Hinds