



**Banca Națională a României**

# **EU payments area environment – new regulations**

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# Main challenges of the EU payments area

- Finalizing the financial integration in the European Union.
- Protection of payment services' consumers.
- Security of payment instruments.
- Ring fencing of consumers' credentials.
- Monitoring by the competent authorities.

# Directive 2014/92/EU on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features

## The context of the regulation

- According to estimates, around 7% of consumers resident in the EU, representing approx. 30 million EU citizens over the age of 18, do not have a payment account.
- Around 6,4 millions have denied or are afraid to access a payment account even if they would like to have one.
- The situation of bank account opening is very diversified around Europe and it reflects major discrepancies between member states. The average EU15 size is 97%. By contrast, Bulgaria's size is 49% and Romania's size is 53%.
- TFEU - an internal market without frontiers – free movement of capitals, persons and services enhances the functioning of the internal market.
- COM - identified difficulties for the completion of internal market. These difficulties hinder competition in internal market and contribute to low competition in the retail banking sector.
  - *The lack of transparency and comparability regarding the fees charged for payment services provided in EU by PSPs.*
  - *Difficulties in payment account switching to another payment service provider .*
- Customer mobility creates competition between PSPs by encouraging them to offer better and cheaper products and services. In order to improve consumer mobility across EU, rules aiming to remove undue barriers to opening and using a bank account on a cross-border basis are needed.
- European citizens applying for a payment account on a cross-border basis should not be discriminated on the grounds of residence or other reasons (financial situation, credit history, etc).

# Regulation aspects

Measures focusing, mainly, on three different aspects, structured into three different chapters:

## **Chapter II – Comparability of fees connected with payment accounts:**

*Binding rules aiming to allow consumers to compare PSPs offers and make options for most convenient options from the market.*

## **Chapter III – Switching:**

*Harmonized rules across EU establishing principles to be followed by PSPs when providing switching services.*

## **Chapter IV - Access to payment accounts:**

*Rules guaranteeing the right of access to payment account with basic features to consumers.*

# Access to payment accounts rules

- **What does the right of access mean?** Member states should ensure that all EU citizens applying for a payment account with basic features on a cross-border basis should not be discriminated on the basis of their nationality or residence or other criteria (financial situation, credit history, etc.).
- **How should the right of access be guaranteed?** Member states should ensure that payment accounts with basic features are provided by all credit institutions operating on the territory of the member state or by a number of credit institutions “sufficient” to ensure the right of access to all consumers in the member state.
- **What do the payment accounts with basic features mean?** There are payment accounts allowing consumers to initiate payment orders by using the following:
  1. Services enabling all the operations required for the opening, operating and closing of a payment account.
  2. Services enabling funds to be placed in a payment account.
  3. Services enabling cash withdrawals within the Union from a payment account at the counter or at the automated teller machines during or outside the credit institution’s opening hours
  4. Execution of the following payment transactions:
    - Direct debits.
    - Payment transactions through a payment card, including online payments.
    - Credit transfers, including standing orders, at, where available, terminals and counters and via the online facilities of the credit institution.
- **Payment account with basic features should allow essential payment transactions:**
  1. Purchase goods and services, pay bills and taxes, receive incomes.
  2. Free of charge or for a reasonable fee.

# Remote payments in the European Union

- *At the EU level, there are three legislative sources for the banking sector, in general, and for payments, in particular (Bruxelles, Frankfurt, London).*
- At the BCE initiative, the European forum on the security of retail payments, **SecuRe Pay**, was set up in 2011 aiming to strengthen the cooperation between the supervisors of payments area and those of payment services providers, focusing on:
  - *ensuring a common level of understanding the specific risks of remote payments.*
  - *implementing the risk management measures.*
  - *harmonizing the minimum security requirements at the European level.*
- The Forum's members are: central banks of EU member states (as supervision authorities in the payments area or supervision authorities of payment services providers, upon case), supervision authorities of member states (when the supervision function of the payment services providers is not a task of the central bank) and EBA.
- The Forum's activity led to the creation of three relevant documents:
  - **Recommendations for the security of Internet payments**
  - **Recommendations for the security of mobile payments**
  - **Recommendations for the payment account access services.**

# Recommendations for the security of Internet payments

- **What are they ?** A set of guidelines, essential considerations and best practices establishing a series of minimum requirements regarding the security of payments initiated on the Internet.
- **What is the purpose ?** To mitigate frauds and to raise the consumers' trust in payment instruments and services offered through web applications.
- **Since when is it applicable ?** February 1st, 2015.
- **To whom ?**
  - payment services providers who provide payment services in the EEA.
  - governance authorities of the payment schemes (Romanian Banking Association, in Romania) who provide card payment services, credit transfer payment services, direct debit services and e-money transfers.

# Recommendations for the security of Internet payments

## The recommendations are based on the following principles:

- the periodical assessment of risks specific to Internet payments by the payment services providers and the governance authorities of the payment schemes.
- the implementation of strict measures for the authentication of the payment services users, at the moment of payment initiation and access to sensitive data (data regarding the payer, the account status, the account balance, the payment history, credentials)
- the implementation of an efficient payment authorization and monitoring process for identifying the deviations from the usual consumer behaviour and for preventing frauds.
- the involvement of the payment services providers and of the governance authorities of the payment schemes in programs meant to warn and educate the consumers.



# Recommendations for the security of mobile payments

- **What are they ?** A set of guidelines, essential considerations and best practices establishing a series of minimum requirements regarding the security of mobile payments.
- **What is the purpose ?** To mitigate frauds and to raise the consumers' trust in payment instruments and services offered through mobile terminals (smartphones, tablets, etc.), without using web applications.
- **Since when it is applicable ?** February 2017, envisaged
- **To whom ?**
  - payment services providers who provide payment services in the EEA.
  - governance authorities of the payment schemes (Romanian Banking Association, in Romania) who provide card payment services, credit transfer payment services, direct debit services and e-money transfers.
- **What is a mobile payment ?** A payment initiated without contact and without using web applications, based on:
  - *NFC technology*
  - *payment applications downloaded by the payer in its mobile terminal*
  - *services offered by the mobile network operators.*

# Recommendations for the security of mobile payments

## The recommendations are based on the following principles:

- the periodical assessment and management of risks specific to mobile payments, both by the payment services providers and by the governance authorities of the payment schemes (considering the evolution of mobile terminals' vulnerabilities, of threats, of frauds and anti-fraud measures, as well as the involvement of mobile network operators, of trusted service managers and of other producers of equipment/components).
- for the purpose of protecting the payment initiation and the access to payment sensitive data, strong authentication measures are considered.
- the implementation of an efficient data protection process (during the transmission, processing and storage process), which will allow the deactivation of the terminal's mobile payment function by the customer and its mobile payment service provider.
- the payments' authorization and monitoring for identifying the deviations from the usual behaviour of consumers and for preventing fraud.
- the involvement of the mobile payment services providers and the governance authorities of the payment schemes in programs meant to warn and educate consumers.

# Recommendations for payment account access services

## The recommendations are focused on:

- the third party payment services providers' obligation to have, at a minimum, security and control procedures similar to those imposed by the *Recommendations for the security of Internet payments* (in order to protect consumers' data).
- properly informing the customers (payers or payees) when they choose or use access services to a payment account.
- the traceability of all transactions and process flows; proper authentication is needed in all communications between the entities involved (the TPP, the account-servicing PSP, the merchant/payee) also to prove which entity was responsible for which part of the process in the event of repudiation, operational problems, security incidents and/or fraud.
- not sharing the credentials between the TPPs and the account-servicing PSP.
- the creation of an European standard dedicated to payment account access services.

# Conclusions

- The interest in ensuring payment security and consumers' protection should be an objective for the payment services providers, the governance authorities of payment schemes and the managers of infrastructures services, as well as for the national authorities having competencies on payment area oversight.
- The financial integration process at the European level cannot be finalized only through self-regulation measures.
- Central banks should increase their role in ensuring the implementation at national level of all relevant measures regarding payments security and consumers' protection.
- Outsourcing functions should be properly managed by the payment services providers.

Thank you very much for your attention !

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