

# The Eurosystem's retail payments strategy

## 1 Introduction

Digitalisation, changing consumer habits and legislative action are profoundly changing retail payments. Increasingly, electronic retail payments are being transformed from basic payment services provided by domestic banks to strongly commercialised payment solutions.

The rise in the use of digital payments has also been driven by the coronavirus (COVID-19) pandemic, with recent surveys<sup>1</sup> indicating a significant shift from cash to cashless payments. The main change has been the increased use of payment cards. Card payments are not only prevalent at the point of sale; they are also used for the back-end processing of most e-commerce payment transactions. At the front end, solutions are increasingly being provided by global technology firms – the “big techs”.

While openness to global competition is crucial if the European payments market is to foster efficiency and innovation, if it overly depends on non-European payment solutions and technologies it risks being more susceptible to external disruption. This is relevant, for example, in the context of protecting payments data or of traceability in the fight against money laundering, terrorist financing and tax evasion. Furthermore, global technology firms' interests may not necessarily be aligned with those of European stakeholders.

The Eurosystem has put in place a comprehensive retail payments strategy to promote European retail payment solutions that are safe and efficient for society as a whole and to meet the rising challenges to European sovereignty in the payments market. The main elements of this strategy are the development of a pan-European solution for payments at the point of interaction that is governed at the European level, the full deployment of instant payments, the improvement of cross-border payments beyond the EU, and support for innovation and digitalisation and for a European ecosystem for payments. This strategy is closely linked to and consistent with the current work on a possible digital euro.<sup>2</sup>

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<sup>1</sup> See the box entitled “[Survey on the impact of the pandemic on cash trends](#)”, *Study on the payment attitudes of consumers in the euro area (SPACE)*, ECB, December 2020.

<sup>2</sup> “[A digital euro](#)”, ECB.

## 2 A pan-European solution for payments at the point of interaction (POI)

The primary goal of the Eurosystem's retail payments strategy is to support the creation of a pan-European solution for retail payments at the POI, i.e. at the physical point of sale and in the mobile and e-commerce space, that is governed at the European level. There is currently no European solution for POI payments, and there is a high reliance on international card schemes and – for e-commerce – on global big tech providers. The Eurosystem supports market-led initiatives to develop solutions if they fulfil five key objectives:

1. pan-European reach and customer experience;
2. convenience and low cost;
3. safety and efficiency;
4. European brand and governance;
5. global acceptance (in the long run).

The Eurosystem welcomes the European Payments Initiative (EPI) – a market initiative to develop a payment solution for consumers and merchants across Europe, including a payment card and digital wallet, that covers in-store, online and person-to-person payments as well as cash withdrawals. The Eurosystem would also support other payment solutions provided that they meet the five key objectives.

## 3 Full deployment of instant payments

The second major goal of the Eurosystem's retail payments strategy is the full deployment of instant payments. Just as the instant delivery of digital services has become the norm in today's society, instant payments are expected to become the new normal.

The launch of the SEPA instant credit transfer (SCT Inst) scheme, the provision of instant payment clearing services by a number of European automated clearing houses, and the TARGET Instant Payment Settlement (TIPS) service going live all helped pave the way for the rollout of instant payments in euro. However, the level of adherence to the SCT Inst scheme and overall progress in deployment has been below expectations. In December 2020, SCT Inst was used for just 7.8% of all SEPA credit transfer transactions.<sup>3</sup>

The full deployment of instant payments also requires additional functionalities to be developed. The Eurosystem's objectives for instant payments are:

1. availability to all individuals and businesses across Europe;

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<sup>3</sup> ["What are instant payments?"](#), ECB.

2. attractive conditions for end users, such as availability on all commonly used electronic channels, and a set of features (e.g. for one-off and recurring payments, single or bulk payments) to encourage the use of instant payments as the new normal;
3. availability of additional pan-European functionalities that support the provision of end user solutions, such as Request to Pay;
4. overcoming the barriers to using instant payments, including the number of rejections, which is currently high compared with the other SEPA schemes, partly due to difficulties with anti-money laundering/combating the financing of terrorism screening.

On the operational side, the ECB has taken steps to ensure that instant payments will have a pan-European reach via TIPS by the end of 2021.<sup>4</sup> All payment service providers in TARGET2 that adhere to the SCT Inst scheme will become reachable in TIPS, either as participants or as reachable parties. Automated clearing house instant payment settlements will move from TARGET2 to TIPS.

## 4 Improvement of cross-border payments

In contrast to payments within the EU, payments that cross the EU border are often slow, expensive and complex, making it hard for end users to easily send and receive money and hampering cross-border trade, investment and remittances. Technological advancements and digital innovation have the potential to improve the efficiency and safety of cross-border payments and current developments demonstrate this potential for both retail and wholesale payments. The Eurosystem aims to improve cross-border payments to better support European businesses and individuals who make and receive payments overseas.

The Eurosystem is working to identify strategic opportunities for EU central banks, in their roles as operators, catalysts and overseers, to support the G20 roadmap to enhance cross-border payments<sup>5</sup>, including practical steps and indicative timeframes.

In its operational role, the ECB is exploring how TIPS could support cross-currency payment transactions. Providing cross-currency instant payments settlement services in central bank money could be an important contribution to the modernisation of European retail payments and benefit European consumers and businesses alike. In collaboration with Sveriges Riksbank, in October 2020 the ECB launched an investigation into allowing the TIPS platform to process cross-currency instant payments between euro and Swedish kronor.<sup>6</sup> This could be seen as a pilot for similar arrangements between other central banks.

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<sup>4</sup> [“ECB takes steps to ensure pan-European reach of instant payments”](#), *MIP News*, ECB, 24 July 2020.

<sup>5</sup> [“Enhancing Cross-border Payments”](#), Financial Stability Board, 13 October 2020.

<sup>6</sup> [“ECB to explore cross-currency instant payments”](#), *MIP News*, ECB, 6 October 2020.

## 5 Support for innovation, digitalisation and a European payments ecosystem

The revised Payment Services Directive (PSD2) has provided the foundations for opening up the banking system and fuelling the development of innovative payment services by fintech companies. The Eurosystem's retail payments strategy supports efficiency and innovation by promoting competition and a level playing field, taking into account the important role European fintech companies play in offering state-of-the-art services to European end users in the form of modern technologies that provide automated and improved financial services. In this context, the Eurosystem is exploring the possibility of setting up a European fintech payments dialogue with fintech companies, as well as a process to identify at an early stage technological developments that could have a profound impact on payments.

Another action point under discussion is to enable direct access to payment systems for non-bank payment service providers, such as payment institutions and electronic money institutions, by revising the settlement finality directive<sup>7</sup>. As this revision may take time, the Eurosystem is analysing the wider implications of one or more Eurosystem national central banks giving supervised non-bank payment service providers access to payment systems.

In addition, the Eurosystem's retail payments strategy encompasses work on harmonising electronic identity (eID) and electronic signature (eSignature) services to enable cross-border acceptance of eID/eSignature solutions. The eIDAS Regulation<sup>8</sup> facilitates this acceptance but only covers the public sector. In the private sector, these solutions are rarely used, despite their potential to replace costly manual and paper-based processes. Pan-European eID/eSignature solutions, potentially linked with biometrics, could enable more efficient and safer payment solutions. The European Commission acknowledges the need to support the availability of eID/eSignature solutions in the private sector and is working on revising the eIDAS Regulation. In parallel, the Eurosystem is investigating the possibility of central banks using eID/eSignature solutions.

## 6 Further goals

Finally, the Eurosystem's retail payments strategy encompasses work on the environmental sustainability of payment transactions and infrastructures, and on ensuring all Europeans have access to safe, efficient and convenient payments in view of the all-encompassing digitalisation process.

In its investigation into how environmental sustainability can be promoted in the area of payments, the Eurosystem's first step will be to develop a methodology to

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<sup>7</sup> [Directive 98/26/EC](#) of the European Parliament and of the Council of 19 May 1998 on settlement finality in payment and securities settlement systems (OJ L 166, 11.6.1998, p. 45).

<sup>8</sup> [Regulation \(EU\) No 910/2014](#) of the European Parliament and of the Council of 23 July 2014 on electronic identification and trust services for electronic transactions in the internal market (OJ L 257, 28.8.2014, p. 73).

measure the level of environmental sustainability of payment transactions and infrastructures.

The ongoing reduction of bank branch and ATM networks, as well as a decline in the acceptance of cash by some retailers and public administrations in certain countries, has triggered concerns about the ability of more vulnerable individuals to make payments. Whereas financial inclusion conceptually relates to the unbanked or underbanked population, usability extends to people who are less adept at dealing with digital payments, also in view of our ageing society. The Eurosystem will investigate how usability (in the sense of access to payments for all citizens) can be promoted in the area of payments. As a first step, it will seek to map out the challenges people face in dealing with digitalisation in payments.

Although the goals of the Eurosystem's retail payments strategy do not directly address central bank digital currencies, they are closely linked to and consistent with the work on a possible digital euro.

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