

POSITION PAPER



ESBG Position Paper: Digitalisation & Innovation

The savings and retail banks' view of the 'Digital Single Market Agenda'

ESBG (European Savings and Retail Banking Group)

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The European Savings and Retail Banking Group (ESBG) membership is formed of 22 members (representing 747 institutions), who service some 220 million customers through combined assets of EUR 6.8 trillion. 54% of their combined loan book is with individual customers, and 40% with companies, of which 60% are SMEs. The European savings and retail banks are proud of their long-lasting relationship and profound understanding of the needs and expectations of this significant customer base – notably, skilfully balancing their customers’ mostly local and regional activity with the occasional need for worldwide reach. Further to their significant investment in secure and reliable payment infrastructures, they have already launched a wide range of initiatives and innovations to enable their customers’ digital experience in carrying out their day-to-day banking business.

European savings and retail banks acknowledge the 3 pillars of the Commission’s Digital Single Market Strategy:

- Pillar 1: Better access for consumers and businesses to digital goods and services across Europe;
- Pillar 2: Creating the right conditions and a level playing field for digital networks and innovative services to flourish;
- Pillar 3: Maximising the growth potential of the digital economy.

European savings and retail banks are particularly interested in the following individual initiatives under the 3 pillars of the Digital Single Market Strategy, and would like to contribute a number of initial remarks and suggestions:

Pillar 1

1) Easing cross border e-commerce

The first recommendation is that legislation should protect digital consumers, in particular for cross-border transactions. Topics to be covered would include:

- Delivery timeframes;
- A single return method;
- Consumer protection measures to guarantee refunds if the merchant does not deliver accordingly.

Consumer protection legislation should be harmonised – either the consumer-country legislation or the merchant-country legislation should apply in all EU Member States, with no “domain shopping” possible (i.e. not allowing merchants to shop around for legal rules to apply to all sales in the EU).

2) Payments

Efficient and convenient e-commerce could be further underpinned by the deployment of a pan-European credit transfer instant payment scheme, in which European savings and retail banks already actively contribute.

3) European Digital Signature

Although European regulation already makes digital signatures (based on digital certificates) legally equivalent to manual signatures, in reality this type of signature is not used by citizens. The many differing types of online capable devices which use this type of service proves a challenge in terms of supply of said services. In some markets, payment institutions have launched services that have won



both public and private recognition and major acceptance due to their interoperability for all users, as well as a business model underpinning the necessary investments. Such cross-industry cooperation should be leveraged at European level to foster the development of digital services that need to have a legally-binding contract with a signature through the Internet - especially where different European countries are involved. There is a strong need for legal European harmonisation regarding the use of the technology – leveraging the electronic identification and trust services (eIDAS) regulation.

4) Unified AML Regulation

The revision of both the Regulation on funds transfers and the 4th AML Directive implies further investments in order to be both compliant and competitive in processing payments. In this area, the most important objective should be that all types of payment service providers should be subject to the same AML requirements (including third party providers, payment institutions, e-money institutions...). This will offer consumers broader and better liability coverage for the different services they receive and put all payment service providers in Europe on a level playing field.

Regarding cryptocurrencies, measures should be taken to regulate this type of initiative in order to reduce the risk for citizens. Citizens, especially young people, need to be made aware of the risk implied by using such non-regulated currencies.

5) Strategy to promote EU-based electronic payments

Cash remains an important means of payment, however it is very expensive for society and European citizens. The development of an instant SEPA credit transfer which could be used for P2P payments would be a good instrument to reduce cash transactions in the future.

6) Payment Services Directive 2 (PSD2)

The revision of the Payment Services Directive will require significant investment from banks in order to continue having account and payment infrastructures that will be accessible to a range of new entrants. From an accounts management and payments perspective, PSD2 places consumers firmly in control, yet hurdles in other areas need to be addressed.

There are a range of new entrants with different business models such as account aggregators, comparators, credit scoring companies, etc. which operate in the financial ecosystem in a quasi-shadow banking mode as they are neither regulated nor supervised. The EU should “defend” European payment infrastructures (clearing and settlement houses) which are already in place and are controlled and regulated by European institutions.

Another issue is the regulation of payment service providers whose IT infrastructures are located outside the EU. Whether the user of such infrastructure is a European citizen or from a third country, the EU should have the right to control these non-EU service providers and be able, for example, to require them to dis-encrypt data they process and store.

7) Unified E-identification for Corporates

Another topic related to the digital signature and the possibility to sign contracts online is the treatment of the “attorney of law” for corporates that operate in different European countries. Due to different legislation and “Know Your Customer” processes, documents required for the execution of



different services can be different across Europe, complicating the day-to-day life of citizens and hindering digitalisation. Standardising the treatment of the “empowerments” across Europe would simplify the digital execution of services for corporates.

8) Data Protection of Bank Accounts

From an accounts-management perspective both the Payment Services Directive and Payment Accounts Directive place consumers firmly in control, yet hurdles in other areas need to be addressed.

9) Harmonisation of contract law and consumer protection

In the areas of contract law and consumer protection legislative proposals should be drawn up to support simple, effective cross-border contract rules for consumers and businesses. The Regulation on Consumer Protection Cooperation is to be reviewed and a consultation launched into its application to e-commerce, relating to the online trade of goods and provision of services. Any legislative proposal in these areas should acknowledge that payment and financial services have already been fully harmonised through prior legislation (e.g. Payments Services Directive, Interchange Regulation, SEPA Migration, Consumer Credit Directive, and many more), hence new proposals should focus on not-yet harmonised topics.

Pillar 2

1) Revision of EU telecom rules concept of net neutrality

The concept of “net neutrality” will probably be debated in the context of telecom rules: whilst the notion of “neutrality” is politically appealing, it will be critical to recognise that some traffic is more important and sensitive than others. Yet a revision of EU telecom rules should also be the opportunity to create true critical mass for digital-infrastructure suppliers in order to encourage larger investments, and a migration to new business models in the over-the-top sector – including toll charges for infrastructure services.

2) Analysis of online platforms

With respect to online platforms, caution should be applied to any temptation to regulate: regulating platforms will most likely hinder Europe’s more than the global ones, and Europe’s businesses need these platforms to compete in the global economy. Europe’s businesses would also certainly benefit from policy makers promoting the creation of European logical infrastructures (such as search tools, social networks, maps and navigation services and automatic digital translators). Banks and financial institutions may become investors and participate in such online platforms.

3) Partnership with industry on cybersecurity

Finally, in cybersecurity, existing legislation (including the recent Network Information Security Directive) must be leveraged to the greatest extent possible, in order to enable market participants to continuously develop and implement the responses required by rapidly-evolving technology. All market participants (with a focus on the demand side) should be encouraged to adhere to a framework (to be developed) covering, on one side, prevention of attacks (including methods to devalue payment data such as tokenization and encryption for data at rest, in use and in transit, analytics and segmentation of technology supporting critical functions), on the other side, the identification, detection, response and recovery from attacks.



4) Unified E-identification for Consumers

Policy makers should promote the assignment to each citizen of a single European digital ID, an ID which should be recognised by every service (e.g. road tolls, e-commerce, administration and government) anywhere throughout the EU. This could be built with the help of social security numbers or other existing national ID tokens in a way that allows for the cancelling of compromised digital IDs and the creation of new ones. It is furthermore necessary to create common legal conditions applicable to the authentication of consumers as well as the authorisation of deals and contracts across the EU.

Pillar 3

1) “European cloud initiative”

Private sector businesses using cloud computing report 10-20% lower IT costs, while cloud computing can also help the public sector improve efficiencies and lower costs. Therefore cloud computing is developing rapidly - from individuals using the cloud to store personal data to major companies who have moved much of their IT services into it. Savings and retail banks support the three-pronged strategy (1. cut through the jungle of different standards, 2. identify safe and fair contract terms and conditions and 3. establish a European cloud partnership) launched by the EU and are in the position to collaborate on this strategy.

2) Cooperation for Standards

Regarding standards, in a digital world cooperation with international standardisation organisations certainly is a core requirement. With respect to e-government, financial institutions' experience in managing e-identities could be usefully tapped into.

3) General Data Protection Regulation

Regarding the General Data Protection Regulation, it remains essential to appropriately balance legitimate demands for privacy and protection with the possibility for businesses to leverage data and information entrusted to them. Data protection rules should also guarantee that consumer and citizen data be stored in the European Union, and that only consumers/citizens may allow third parties to access their data. Consumers should also have the right to access their personal data and decide which third parties they allow (or not) to have access to their personal data. Legal harmonisation is therefore needed to balance data privacy and data protection and enabling businesses without triggering competitive disadvantages with players from third countries.

4) E-government

Central, regional and local administrations provide a lot of services to citizens. These services have to be simplified and digitalized as much as possible. In this field there is a strong need, on one side, for standardisation of the services given by the different public administrations and, on the other side, for interoperability between services in order to avoid duplication and bureaucracy for citizens. In this area there has always been strong collaboration with the banking community, especially in the field of tax payments. Nevertheless more action can be taken in the future, like using SEPA, SCT and SDD for these types of payments (instead of other payment methods, e.g. cheques) and using innovations such as QR-code payments and mobile payments.



Conclusion

Overall, the European Savings and Retail Banking Group would like to emphasise the importance of designing a roadmap early on, to position and link the 16 initiatives that constitute the Digital Single Market Strategy. In our view, such a roadmap would place an emphasis on e-government, promoting the development of European payments and digital infrastructures, the deployment of a pan-European instant credit transfer scheme, the creation of a level playing field for all payment service providers within the EU, and a reduction in cash transactions.

European savings and retail banks would like to stress that coherence between the political vision, and the enticement and means available to market players to implement such a vision, is essential. Therefore, fair and transparent business models are essential to make investments possible and allow for a market-driven expansion of functions that are needed to supply the services asked for by payers and payees in the Digital Single Market. The European Savings and Retail Banking Group sides with Commissioner Oettinger who declared when launching the Digital Single Market Agenda: “Future prosperity will depend largely on how we master the transition [to the digital economy]”.

We are therefore proposing to cooperate and work with Commissioner Oettinger and his colleagues to help achieve the goals of the Digital Single Market Agenda, thereby contributing with our main assets such as our strong customer base and market share, security, trust and the already-high level of digitalisation in our industry.



About ESBG (European Savings and Retail Banking Group)

ESBG brings together savings and retail banks of the European Union and European Economic Area that believe in a common identity for European policies. ESBG members support the development of a single market for Europe that adheres to the principle of subsidiarity, whereby the European Union only acts when individual Member States cannot sufficiently do so. They believe that pluralism and diversity in the European banking sector safeguard the market against shocks that arise from time to time, whether caused by internal or external forces. Members seek to defend the European social and economic model that combines economic growth with high living standards and good working conditions. To these ends, ESBG members come together to agree on and pro-mote common positions on relevant matters of a regulatory or supervisory nature.

ESBG members represent one of the largest European retail banking networks, comprising of approximately one-third of the retail banking market in Europe, with total assets of €6,749 billion, non-bank deposits of €3,415 billion and non-bank loans of €3,685 billion (31 December 2013).



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