

Bank Groups Call For EU Digital Identity To Exclude Payments

By **Alex Davidson**

Law360, London (April 11, 2023, 4:51 PM BST) -- European banks on Tuesday came out against European Union plans for a digital identity card that could leave banks solely responsible for reimbursing fraud victims if the identification procedure allows payment transfers as proposed.

The European Banking Federation, the European Association of Co-Operative Banks and the European Savings and Retail Banking Group called on European authorities to remove the compulsory inclusion of payments from the planned Digital Identity Regulation ahead of that legislation.

"The current text of the regulation does not address which party is liable. As the text stands, it is likely banks would be required to compensate victims of fraud. Keeping payments out of the scope of the regulation would resolve this issue," said Janine Barten, policy adviser at the ESBG.

Individual member states will be responsible for European digital identity wallets — financial transaction applications storing the required identification data — under the proposals. They will be responsible for any losses from identity theft.

For banks to get the money out of the member states in a consistent way if at all will be a different issue.

Banks would need to request from the member states the funds to meet reimbursements they have made to victims of payments fraud, for example through stolen credit card payments, but the proposed text of the regulation does not say how this is done.

To ensure member states pay up, a liability framework would have to be designed, which means significant extra work with a likely inconsistent approach across jurisdictions, said the banking groups, collectively known as the European Credit Sector Associations.

Another concern the banks mentioned is that to include payments in the Digital Identity Regulation means significant extra costs for banks to accommodate payments because they would have to redesign procedures and introduce new software to make this work.

"This would require a completely new infrastructure — adding to the burden on banks," said Eduard Hovsepyan, policy adviser at the EBF.

The European digital identity, as proposed, would have to comply with the Payment Services Directive 2 requiring payment service providers to undertake strong customer authentication procedures.

That directive requires authorization and authentication procedures beyond just identifying customers.

The groups said that for the purposes of the EU digital identity this is too much and that firms should be required only to undertake customer identification.

They favored allowing payments to be included in the digital identity system on a voluntary basis, however, in which case banks would have to design their own voluntary frameworks.

"We urge the European Parliament and the council to re-consider their proposed wording during the trilogue negotiations," they said in a joint statement, referring to the process of agreeing the text between those authorities and the European Commission.

The European Credit Sector Associations together represent every kind of bank across Europe. The EBF includes 33 national banking associations in Europe, representing 3,500 banks, including UK Finance. The EACB has 2,700 members, which are financial institutions owned by their customers, across Europe. The ESBG represents 871 savings and retail banks.

--Editing by Brian Baresch.