

# Yves Mersch: Reaping the benefits of payment services in a new regulatory environment

## **Speech by Yves Mersch, Member of the Executive Board of the ECB, at the European Banking Federation's Executive Committee, Frankfurt am Main, 22 February 2018**

The revised Payment Services Directive (PSD2) has featured high on the agenda of the payments industry for some time and it will continue to do so. The regulatory technical standards (RTS) on strong customer authentication and common and secure open standards of communication, which have been submitted by the European Commission to the co-legislators for scrutiny, strike a fair balance between the previously diverging views of the different players. They should soon be finalised and then published in the Official Journal.

The new legislative framework will support innovation and competition in retail payments; it will enhance the security of payment transactions and the protection of consumer data. It will introduce major changes to which all payment service providers (PSPs) will have to adapt, and I encourage all PSPs to ensure the highest level of security in their payment services and adopt the requirements of the RTS ahead of time. Banks should also grasp the opportunity to work towards a single and standardised interface to communicate with third-party providers (TPPs) across Europe in a safe and efficient manner. Cooperation with TPPs and users is crucial in this context in order to deliver innovative, efficient and competitive services to the people of Europe.

Let me explain this in more detail.

### **Security requirements during the transition period**

As co-chair of the European Forum on the Security of Retail Payments (SecuRe Pay), the ECB has contributed in particular to the RTS in respect of strong customer authentication and common and secure open standards of communication, the Guidelines on security measures for operational and security risks of payment services and the Guidelines on major incident reporting. It is still involved in the finalisation of the Guidelines on fraud data reporting requirements.

Now that Member States have transposed or are about to transpose the PSD2 and almost all pieces of secondary legislation have been finalised, I think we can say that the European market has taken a major step towards:

- increasing the protection of payment service users against fraud and

- possible abuses of their financial information,
- fostering the resilience of PSPs through harmonised minimum security requirements, and towards
- enabling competition in the field of payment services by introducing innovative payment services such as payment initiation services, account information services and issuing card-based payment instruments where a confirmation on the availability of funds is requested, as well as clarifying the applicable liability regime for such services.

I am aware that the market still has some concerns and that clarifications with respect to the PSD2, and the RTS in particular, have been requested. The ECB will continue to provide support and expertise in this field as an active observer in the API Evaluation Group, which was recently established by the European Commission.

Beyond this, I am convinced that it is in your particular interest as payment service providers – and in the interest of the security of the retail payments market more generally – to implement the RTS and other related PSD2 requirements as soon as possible. Please do not wait 18 months until you are obliged to comply with the security requirements enshrined in the RTS. Take action soon, as these measures are necessary to mitigate threat scenarios of which you are well aware.

For example, strong customer authentication solutions with dynamic linking of the authorisation to the specific amount and payee will help to prevent man-in-the-middle attacks. Transaction and device monitoring is essential to identify unusual payment patterns and potential fraud cases. It is also essential to start offering well-functioning and reliable access interfaces to the payment service user accounts in order to protect the confidentiality and integrity of your customer information.

It is also paramount that TPPs be authorised or registered as soon as possible, and comply with all legal requirements at an early stage. TPPs need to bear their share of the responsibility by testing and using the access interfaces in a prompt and cooperative fashion, and by contributing constructively to the ongoing efforts aimed at the standardisation of these interfaces.

## **Standardisation**

Standardisation is a basis for the efficient and pan-European provision of payment services in an integrated market. Already shortly after the adoption of PSD2, members of the Euro Retail Payments Board (ERPB) voiced concern that the legal requirements alone would not be sufficient for the provisioning of efficient and integrated pan-European payment initiation services (PIS) and that the industry should agree on common technical, operational and business requirements to complement the legal requirements.

“Business” in this sense means, for instance, the processes for incident handling between PSPs but excludes commercial aspects. “Operational” refers to matters such as a directory service that banks could address 24/7 to check whether a TPP contacting them is indeed still a licensed PSP. “Technical”

relates mainly to the interfaces that banks are obliged to offer according to the PSD2 and the RTS.

The PSD2 and the RTS do not provide technical specifications; they only set high-level requirements. In order to remain technologically neutral, and to cater for potentially different approaches by PSPs, the RTS give the account-servicing PSP the choice of establishing an interface dedicated to payment initiation services or allowing TPPs the use of the online banking interface used by their normal customers.

As a consequence, the approximately 4,000 banks offering SEPA credit transfer could in theory finally try to meet the legal requirements of PSD2 and its RTS by developing and offering a **proprietary** interface. Thus, in a worst-case scenario, any TPP would need to manage 4,000 bespoke IT-projects to connect to each of those banks, thereby clearly going against the spirit of the new directive.

Back in February 2014 in the ECB's legal opinion on the proposed PSD2, we pointed out the importance of working towards a **standardised** European interface to facilitate pan-European PIS. The European Commission has also clearly articulated recently that a standardised interface is their preference, since it provides the technical basis for competition and allows even the smallest players, including start-ups (fintechs), to enter the market with new and innovative services that could be offered with a pan-European reach.

It is a step in the right direction that only a few initiatives are currently developing standardised specifications for Application Programming Interfaces (APIs) and the ERPB already called for close cooperation between these projects. I would even go a step further and encourage these initiatives to join forces and agree on one common technical specification so that the whole of Europe could base their systems upon one or a few technical API standards. This will greatly facilitate market entry, avoid fragmentation and allow for competition at the service level, avoiding obstacles at the technical level.

To promote the uptake of standardised APIs, the European Commission has invited market participants to establish an API Evaluation Group, which has just started its work. I call on the banks to actively, substantively and speedily contribute to the activities of this Group, as its findings are essential for the competent authorities, after consulting the EBA, to grant an exemption from the RTS obligation to offer a fallback solution for the dedicated interface.

I am of course aware that a bank can also be compliant with the RTS by offering an adaptation of its customer online banking interface instead of a **dedicated** interface. Such interfaces would meet the legal requirements, but would not meet the market needs of efficient and pan-European provision of payment initiation services. So I was disappointed when I heard that some banks seem to be seriously considering this option. I strongly encourage them to offer a dedicated interface, based on a standardised specification, as this is one pillar of successful PIS.

Last, but certainly not least, the ERPB extended the mandate of its Working Group on payment initiation services to follow up several common requirements related to operational and business elements, which together are the other pillar of successful PIS. I appreciate the commitment that the banks have shown to this important task and expect to complete the work by June 2018. It is important that the API Evaluation Group and the ERPB Working Group progress in parallel so that PSPs have clarity by the summer and can plan their investments that need to be made. Then they can prepare for a timely implementation of PSD2 and the RTS and be ready for the competition that PSD2 aims to foster.

## **Conclusion**

To conclude, I would strongly encourage European payment service providers to embrace the opportunities the PSD2 provides for competition and innovation, to cooperate in the standardisation of APIs that should preferably result in a single API, and to implement all the security requirements of the new directive and its RTS as soon as possible, even before they become mandatory.

I count on the full commitment of the European Banking Federation and the entire payments industry to work towards safe, efficient and innovative payment services.

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## **[Press release: EU Auditors to examine organic-food control system](#)**

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## **[Bulgaria: EIB and Raiffeisen Leasing join forces to support corporate investment](#)**

- EUR 30m intermediated loan will improve access of some 150 small and medium-sized companies to leasing services
- EIB funds will support smaller projects in agriculture, manufacturing, transportation and storage

The European Investment Bank (EIB) has signed an intermediated loan agreement of EUR 30 million with Raiffeisen Leasing Bulgaria to finance projects of small and medium-sized enterprises and mid-cap companies. The loan will allow

**Raiffeisen Leasing Bulgaria to better address the needs of SMEs and mid-caps, which are the backbone of the Bulgarian economy.**

The partners expect that the loan will benefit more than 150 companies operating in Bulgaria in agriculture, manufacturing, transportation and storage.

For the EIB, this operation takes forward its long-standing successful cooperation with the Bulgarian subsidiaries of Raiffeisen Bank International going back to 2002. This financial institution has proved to be a strong and reliable partner in intermediated lending, with a well-developed network of branches across Bulgaria and a profound knowledge of the country's SMEs market.

**EIB Vice-President Vazil Hudák** said: *"Support to SMEs is crucial for further development of the Bulgarian economy. Improved access to long-term financing strengthens the competitiveness of recipient companies that employ 1.5 million Bulgarian citizens and create two thirds of the value added of the Bulgarian economy".*

**Dobromir Dobrev, Deputy CEO of Raiffeisenbank (Bulgaria)**, responsible for corporate banking, capital markets and the leasing company, said: *"Thanks to our good cooperation with the EIB, we will further expand our support to Bulgarian businesses. So far, the Raiffeisenbank (Bulgaria) Group and the EIB have signed global loan transactions for EUR 160 million for the bank and the leasing company. Under this last agreement with the EIB, through Raiffeisen Leasing Bulgaria, we will provide new lease financing in BGN and EUR for a wide range of customers for purchases of equipment, trucks and trailers, light commercial vehicles and passenger car fleets, etc."*

*"Raiffeisen Leasing has traditionally supported small and medium-sized Bulgarian companies in their investment activities for over 14 years. This new credit facility from the EIB will enable our clients to enjoy leasing conditions similar to their competitors in Central Europe, and we believe this will not only support their investment plans but will also increase their competitiveness."* Dobrev added.

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## [Financial statements of the ECB for 2017](#)

PRESS RELEASE

22 February 2018

- ECB profit increased by €0.1 billion to €1.3 billion in 2017 (2016: €1.2 billion) and is distributed in full to national central

banks

- Net interest income on securities held for monetary policy purposes: €1.1 billion (2016: €1.0 billion)
- ECB's Balance Sheet grew to €414 billion (2016: €349 billion)

The European Central Bank's (ECB's) audited financial statements for 2017 show that the **net profit increased by €82 million, to €1,275 million**, mainly as a result of higher net interest income earned on the US dollar portfolio and the [asset purchase programme](#) (APP) portfolio.

**Net interest income totalled €1,812 million** in 2017 (2016: €1,648 million). Net interest income on foreign reserve assets increased to €534 million (2016: €370 million) owing to higher interest income earned on the US dollar portfolio. Net interest income arising from the APP increased by €140 million, to €575 million, as a result of the continuing securities purchases under this programme. Conversely, as a result of redemptions, net interest income earned under the Securities Markets Programme (SMP) decreased to €447 million (2016: €520 million). The ECB's interest income from its SMP holdings of Greek government bonds amounted to €154 million (2016: €185 million).

**Realised gains arising from financial operations decreased to €161 million** (2016: €225 million). The decrease in net realised gains was mainly due to lower price gains on US dollar securities.

**Write-downs amounted to €105 million** (2016: €148 million), primarily as a result of a decrease in the market value of a number of securities held in the US dollar portfolio alongside an increase in the relevant yields.

Impairment tests are conducted on the securities held by the ECB in its monetary policy portfolios, which are valued at amortised cost (subject to impairment). Based on the results of these tests, no impairment losses have been recorded for these portfolios.

**The fees charged to supervised entities amounted to €437 million** (2016: €382 million). These fees are charged in order to recover expenses incurred by the ECB in the performance of its supervisory tasks. The increase in 2017 relates predominantly to work associated with the targeted review of internal models (TRIM) and an increase in the number of ECB staff working in banking supervision.

**Total staff costs and other administrative expenses increased to €535 million** (2016: €467 million) **and €539 million** (2016: €487 million) respectively, mainly owing to the increase in expenses related to the ECB's supervisory tasks.

The ECB's net profit is distributed to the euro area national central banks (NCBs). **The Governing Council decided to make an interim profit distribution, amounting to €988 million, to the euro area NCBs on 31 January 2018.** At yesterday's meeting, the Governing Council decided to **distribute the remainder of the profit, amounting to €287 million, on 23 February 2018.**

**The total size of the ECB's Balance Sheet** increased by 19% to €414 billion (2016: €349 billion). This increase was almost exclusively due to the securities purchased under the APP.

The continuing purchases of securities under the APP led to an increase in the **consolidated balance sheet of the Eurosystem**, which rose by 22% to €4,472 billion (2016: €3,661 billion). The Eurosystem's holdings of securities held for monetary policy purposes increased by €732 billion to €2,386 billion (2016: €1,654 billion). The APP holdings increased by €754 billion to €2,286 billion, while securities held under the first two covered bond purchase programmes and the SMP declined by €9 billion and €13 billion respectively owing to redemptions.

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#### **Notes:**

1. *Accounting policies of the ECB and the Eurosystem:* Common [accounting policies](#) have been established by the Governing Council for the Eurosystem, including the ECB, in accordance with Article 26.4 of the Statute of the European System of Central Banks and of the European Central Bank (Statute of the ESCB), and have been published in the Official Journal of the European Union. Although generally based on internationally accepted accounting practice, these policies are designed with special regard to the unique circumstances of the central banks of the Eurosystem. Particular prominence is given to the principle of prudence, owing to the large foreign exchange exposures of most of the Eurosystem central banks. This prudent approach applies particularly to the differing treatment of unrealised gains and unrealised losses for the purpose of recognising income, and to the prohibition on netting unrealised losses on one asset against unrealised gains on another. Unrealised gains are transferred to revaluation accounts. Unrealised losses exceeding the related revaluation account balances are treated as expenses at the end of the year. Impairment losses are taken to the profit and loss account in their entirety. All euro area NCBs are required to follow these policies for the purpose of reporting their operations as part of the Eurosystem, which are included in the Eurosystem's weekly consolidated financial statements and the consolidated annual balance sheet. Moreover, they apply broadly the same policies as the ECB in preparing their own annual financial statements.
2. *The securities currently held for monetary policy purposes* are accounted for at amortised cost (subject to impairment).
3. *Marketable securities, other than securities held for monetary policy purposes*, are revalued at market prices.
4. *Gold and all other on-balance-sheet and off-balance-sheet assets and liabilities denominated in foreign currency* are converted into euro at the exchange rate prevailing at the year-end.
5. *Profit distribution/allocation of losses:* Pursuant to Article 33 of the Statute of the ESCB, up to 20% of the net profit for any year may be transferred to the general reserve fund, subject to a limit equal to 100% of the ECB's capital. The remaining net profit is to be distributed to the euro area NCBs in proportion to their paid-up shares.

6. In the event of a loss incurred by the ECB, the shortfall may be offset against (a) the ECB's general risk provision and the general reserve fund; and (b) the monetary income for the relevant financial year, following a decision by the Governing Council. Finally, any remaining net loss may be recorded on the Balance Sheet as losses carried forward and be offset against any net income earned in subsequent year(s).
7. *Eurosystem SMP holdings*: The table below presents the breakdown by issuer of the outstanding amounts of the Eurosystem's SMP holdings as at 31 December 2017.

**Total Eurosystem SMP holdings by issuer country as at 31 December 2017**

<b>Issuer country</b>	<b>Nominal amount</b> (EUR billions)	<b>Book value</b> <sup>[1]</sup> (EUR billions)	<b>Average remaining maturity</b> (years)
Ireland	7.3	7.2	2.3
Greece	9.5	8.9	2.8
Spain	17.3	17.3	2.3
Italy	49.5	48.7	2.2
Portugal	7.3	7.1	2.0
<b>Total</b> <sup>[2]</sup>	<b>91.0</b>	<b>89.1</b>	<b>2.3</b>

<sup>[1]</sup> SMP holdings are valued at amortised cost.

<sup>[2]</sup> Totals may not add up due to rounding.

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## Cities and regions “central” to women’s progress in Mediterranean region

Euro-Mediterranean local leaders support policies to reduce violence against women and to increase their access to education, employment and leadership.

**Local and regional administrations should catalyse improvements in the position of women in the southern and eastern Mediterranean by taking a central role in extending access to education for women, promoting women to public office, and easing their entry to the labour market, the Euro-Mediterranean Regional and Local Assembly (ARLEM) argues in a set of recommendations adopted on 21 February.**

The ten recommendations, which will be circulated to governments and supranational bodies in the region and in the European Union, also urge national governments to sign the Istanbul Convention, which was drawn up by the Council of Europe in 2011 with the aim of curbing domestic violence



against women in the Mediterranean region. The ARLEM report, which was adopted in Giza, Egypt, at the assembly's annual plenary meeting, concludes that violence against women is both "endemic" and under-reported, with female genital mutilation common in Egypt and Mauritania, rates of child marriage increasing in some countries, and rape by husbands remaining unpunishable in many countries.

**Mary Freehill** (IE/PES), a city councillor from Dublin, Ireland and ARLEM's rapporteur on "[Women's empowerment in the Mediterranean region](#)", said: "There has been significant progress for women in the southern and eastern Mediterranean in law and there are encouraging signs that women are entering local and national politics in greater numbers. But, very clearly, meeting the United Nations Sustainable Development Goal of achieving gender equality and empowering women and girls is a huge challenge for the region."

She continued: "Local and regional administrations can be catalysts for change. They can use their central role in the provision of education to ensure that more girls finish school and enter university. They can help women find work, by offering targeted vocational training, providing child-care services, and by making public transport safer and more reliable. They can be rolled out public-awareness campaigns against violence. And they can lead by example, by encouraging women to enter politics. I hope that, in future, International Women's Day – on 8 March – will be an annual opportunity to celebrate the progress of women in the southern and eastern Mediterranean."

The report emphasises that women in the European Union, as in the countries of the southern and eastern Mediterranean, are held back by many socio-economic, ideological and psychological obstacles. However, the report notes a range of specific problems related to education, leadership, violence, and stereotyping for women in the region, from Albania and Turkey in the east to Morocco in the western Mediterranean. It also points to international studies that enumerate the economic effects. A below-average percentage of employers are women (6%, compared with a global average of around 24%); the same is true for the percentage of self-employed people who are women (13%, compared to 31%-38% globally).

This report develops on a position paper adopted in June 2013 in which ARLEM underlined the need for women in political decision-making at the local and national level. In a separate report adopted on 21 February, ARLEM argued that the threat of violent radicalisation necessitates the integration of women "at all levels" and the training of female teachers. The report – entitled "[The role of the sub-national authorities from the Mediterranean region in addressing radicalisation and violent extremism of young people](#)" – was drafted by **Mohamed Kamal El Daly**, the Governor of Giza and host of the meeting.

ARLEM brings together representatives of local and regional government in the EU – most of them members of the European Committee of the Regions – and their counterparts from Mediterranean states from the western Balkans, the Middle East and North Africa.

## Note to editors

- The European Committee of the Regions created the [Euro-Mediterranean Regional and Local Assembly](#) (ARLEM) in 2010 to provide a local and regional perspective on Mediterranean issues. It complements efforts made by the EU and non-EU Mediterranean states in the region to develop more channels and levels of dialogue and cooperation, including the [Union for the Mediterranean](#). The EU delegation in [ARLEM](#) is comprised of 32 members of the European Committee of the Regions and eight representatives of EU associations of local authorities.
- ARLEM met on 20-21 February in Giza, Egypt, at the invitation of **Mohamed Kamal El Daly**, the Governor of Giza. Ahead of their meeting, ARLEM members visited an urban project in Giza.
- The reports – “ [Women’s empowerment in the Mediterranean region](#) ” and “ [The role of the sub-national authorities from the Mediterranean region in addressing radicalisation and violent extremism of young people](#) ” – are the latest in a series of recommendations adopted by ARLEM on issues that are critical to the sustainable development of the southern and eastern Mediterranean. In recent years, ARLEM has also adopted reports on, for example, [climate change](#), the [energy transformation](#), [water management](#) and [waste management](#).
- **Photos** are available via [Flickr](#). [Background information](#) on **Egypt** is available from the European Parliament.

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