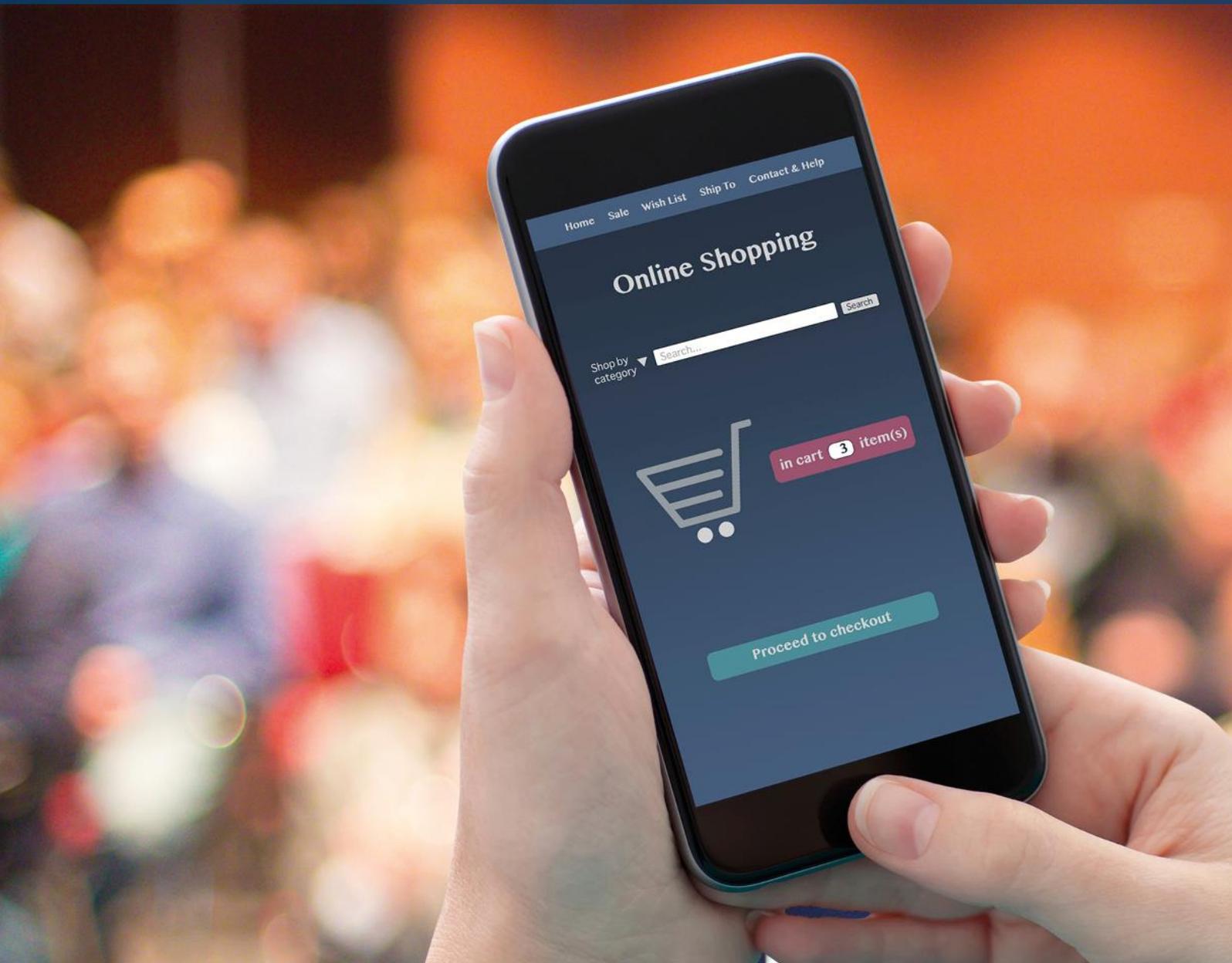


# ECOMMERCE EUROPE POSITION PAPER

**Towards a stronger online payments landscape in Europe**  
Policy recommendations for an innovate and competitive cross-border payments landscape

April 2017



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## Ecommerce Europe's recommendations on e-Payments

Ecommerce Europe is the voice of the e-commerce sector in Europe. Through its 19 national associations, Ecommerce Europe represents over 25,000 online shops across Europe. Its mission: boost the e-commerce industry by helping decision makers shape policies fit for future sustainable growth. To do so, Ecommerce Europe takes initiatives to come up with innovative market solutions and provides a platform for expert discussion, connect online retailers with relevant stakeholders. It also highlights the importance of e-commerce to the economy through the provision of in-depth research on the European and global markets. Additionally, Ecommerce Europe stimulates the industry by developing initiatives like its European Trustmark label - provided for free to more than 10,000 certified online shops across Europe.

The Internet has revolutionized the way people buy and sell goods and services. It has created technically savvy, demanding consumers that want to shop anywhere, at any time. Therefore, the future of e-commerce is bright. The emergence of mobile platforms, personalization, data analytics, omni-channel services and the sharing economy has also enabled online shops to quickly innovate and develop new business models that meet ever evolving demands.

Today 65% of European internet users shop online, but only 16% of SMEs sell online, with less than half of those selling online across borders (7.5%). Although the e-commerce sector continues to grow exponentially in Europe, the sector faces key challenges in its quest for innovation. Our Cross-Border Barometer 2016 identifies differing legal frameworks, taxation systems (VAT) and issues related to parcel delivery services as substantial hurdles for merchants selling online cross-border.

Equally, according to the Cross-border Barometer 2016, concrete issues related to online payments remain a burdensome challenge for online merchants when trading cross-border:

- High costs: burdensome interchange fees and processing fees of banks and third-party payment providers continue to prevail - especially for convenient and easy-to-use payment solutions;
- Identification of the consumer: a lack of uniform electronic identification systems forces consumers and merchants to go through a burdensome process of consumer authentication and identification;
- Complicated check-out processes: conversion is lost because consumers leave the process prematurely when authorization and authentication requires too many steps.

A substantial part of the growth in the sector comes from continued innovations in mobile commerce and innovative mobile payments solutions. In light of the nature of mobile shoppers, complicated check-out procedures and authentication methods pose a particularly fundamental problem, as they tend to leave the process after the first step.

Ecommerce Europe welcomes the adoption of the Payment Services Directive 2, which promotes an open and innovative European payments landscape. Through customer-centric solutions, third-party Payment Providers (TPPs), one-click buy options, wallet solution and developments in biometric authentication, innovations can accelerate product development and stimulate cross-border purchases, as long as they adhere to the same standards that established solutions provide.

Future regulation should be technologically neutral, foster fair competition and encourage future investment in the electronic payments market. In any case, new legislative initiatives should only be taken when proven necessary, taking into account market stakeholders' expertise and when market self-regulation cannot provide for sufficient coverage and solutions.

For online merchants, payment infrastructure investments are made on the basis of long-term economic outlooks, expectations and trends. Electronic payment solutions, to be successful and interoperable, must pay attention to three fundamental principles:

Reach: defined as the number of potential buyers that have access to the mix of payment methods. The total reach of a retailer's payment mix determines whether an interested visitor can become a potential buyer.

Conversion: defined as the probability that an interested visitor will become an actual customer – it thus determines business volume and revenue. Conversion is, among other factors, strongly influenced by the usability of a payment method, the familiarity of the user experience and the technical reliability of the payment method.

Fair cost: affects the profitability of each transaction. The cost of the payments, including costs incurred from fraudulent payments and exception handling, is among the retailer's most prominent concerns, but only after both reach and conversion are satisfied.

## RECOMMENDATIONS ON E-PAYMENTS

- **Further revise the EBA's RTS on Strong Customer Authentication to preserve online merchants' business models**
- **Facilitate interoperability of payment systems between all Member States and all online devices**
- **Safeguard market newcomers' access to banks' customer data**
- **Support developments in pan-European electronic Identification schemes**

## 1. Further revise the EBA's RTS on Strong Customer Authentication

Online merchants' conversion rates heavily depend on the delicate balance between security and convenience. The perception of an inconvenient check-out experience caused by overly burdensome and/or stringent authentication can risk customers abandoning the check-out process, negatively impacting upon merchants' conversion rates. Ecommerce Europe strongly believes that regulation should facilitate a balanced approach to electronic payments authentication, to ensure that online merchants' business models, based upon a trust-based merchant - customer relationship, can be preserved.

The finalization of the Payment Services Directive 2 has been ground-breaking. For the first time, European legislators attempted to mandate specific security standards and specifications through legislation. Ecommerce Europe welcomes the Payments Services Directive 2 and supports its aim of ensure a high level of payment security through mandating a balanced and convenient approach to security standards. Ecommerce Europe acknowledges the challenging task conveyed to the European Banking Authority to draft RTS on Strong Customer Authentication and appreciates their change of mind to include an exemption for Transactional Risk Assessment in its final draft. However, serious objections continue to persist.

### *a. Revise the Reference Fraud Rates for remote card-based payments to account for market realities*

Ecommerce Europe welcomes the European Banking Authority's acknowledgement, under Article 16, of the crucial role Transactional Risk Assessments of electronic payments play to the business models and the competitiveness of online merchants<sup>1</sup>. As a technologically neutral alternative to fighting online fraud, transactional risk-based assessments allow online merchants and their Payment Service Providers to adapt to new and evolving parameters and fraud patterns, while ensuring the high level of check-out convenience European e-commerce shoppers have become used to.

However, the required Reference Fraud Rates under Article 16.2(a) are set too stringent, not in line with market realities and in contradiction to the PSD2's competition objectives. In their current form, the required percentage rates will effectively push a significant number of electronic payment transactions to having to undergo Strong Customer Authentication, thus voiding the concept of Transactional Risk Analysis as an exemption.

The currently proposed 3-tiered Reference Fraud-rate levels of 0.13%, 0.06% and 0.01% for €100, €250 and €500 respectively, do not account for the greatly varying fraud levels between different EU countries, e-commerce industry sectors and online merchant profiles. This continued-one-size-fits-all approach proposed by the European Banking Authority, therefore will continue to prove inadequate in the ongoing fight against online fraud, while disproportionately impacting upon low-risk transactions through the forced application of Strong Customer Authentication to European SMEs.

The Exemption Threshold Values proposed by the European Banking Authority are overly complex and it remains unclear how they will be calculated. Online fraudsters have been known to quickly exploit any static regulatory thresholds. Any limits based on the transaction amounts will prove inadequate and are therefore not desirable. Thresholds for the industry should be collected, categorized and set through collaboration amongst merchants, issuers and processors who remain committed to the reduction of fraud rates through an adaptive approach.

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<sup>1</sup>For more in-depth recommendations, please download our Position Paper on authentication in online payments (April 2017) at <http://www.ecommerce-europe.eu/position-papers>

As fraud rates and risk vary significantly between countries, industry sectors and merchant sizes, a sector-specific approach could be taken to measure the fraud using available industry data.

*b. Expand the application of Transactional Risk Assessment to online merchants and online merchants' Payment Service Providers*

The inclusion of an exemption for Transactional Risk Assessment is a critical first step in the right direction, the European Banking Authority's final draft RTS continue to fail to address the underlying risks it poses to the success of the European e-commerce industry. According to the RTS, both the payer's and the payee's Payment Service Provider can qualify, based upon their fraud-rate levels and the Exemption Threshold Values, for the triggering of the Transactional Risk Assessment.

According to Recital 24 of the RTS, however, the payer's Payment Service Provider will have the "final say" whether Strong Customer Authentication or Transactional Risk Assessment will be triggered. It is unacceptable for Ecommerce Europe that the merchant side would not be allowed to be directly involved in the decision making.

Online merchants often have access to more and higher quality customer history, tracking and identification data to assess transactional risk than third-party Payment Service Providers. Facilitated by increasingly sophisticated data analytics, online merchants today can efficiently, and in real-time, track and analyze the fraud-risk of an individual customer. Online merchants should be free to choose their preferred electronic payments authentication technique if they provide an equally high level of payment fraud protection as Strong Customer Authentication.

In any case, the draft RTS' provisions for the payer's Payment Service Provider to have the final say on the application of Strong Customer Authentication is not in line with Article 97 of the Payment Services Directive 2 and should be expanded to provide the payee's Payment Service Provider with equal decision-making powers for the triggering of Transactional Risk Assessment. Furthermore, by having a say in the final decision on the application of Transactional Risk Assessment, the merchant's Payment Service Provider has an economic incentive to improve its Reference Fraud Rates for a given electronic payments instrument.

*c. Expand the dynamic linking requirements to allow for Transactional Risk Assessment*

It is an established industry practice to provide customers with a choice to split multi-item orders into several shipments which can be sent at different dates as individual products become available. For remote transactions, in accordance with card schemes' rules and for peace of mind, customers are typically only charged when items ship. This results in several charges of differing amounts adding up to the total of the order.

In its current form, the draft RTS do not allow merchants to continue to pursue this practice without generating and showing the customer a new 'authentication code' for each split payment. However, this would not be possible as customers will already have checked out of the online shopping experience and would require that the full amount of the transaction be charged at once, regardless of whether items have been shipped or not. For customers, used to streamlined, convenient and fast online shopping and check-out experiences, this would be an unnecessary and inconvenient barrier,

Ecommerce Europe believes that the currently proposed provisions on dynamic linking are not in line with Article 98.1(b) of the Payment Services Directive 2, which requires that risk-based exemptions be included also for the dynamic linking requirement.

The Transactional Risk Assessment exemption should be applied in justified cases such as when multiple charges and price adjustments will be totaled at the check-out. Today, split shipments are processed as multiple authorization requests when submitted with the original authentication data. The total amount of the split transaction can vary from the original authentication by up to 15%, allowing for the reflection of any additional costs associated with the items. This approach ensures the security of online transactions, while providing online merchants with the flexibility to meet customer requirements and expectations.

#### *d. Proposals for European legislators*

Ecommerce Europe calls on European policy makers to preserve the spirit of the Payment Services Directive 2, and to amend the European Banking Authority's regulatory technical standards accordingly. In order to stimulate a continuous reduction in payment fraud, increase competition in the online payments landscape and foster the development of the digital economy in Europe, Ecommerce Europe suggests that legislators:

- Revise the Reference Fraud Rate percentages under Article 16.2(a) to bring them in line with market realities and SEPA-area fraud levels, to clarify exactly how the 3-tier monetary thresholds for electronic transactions are calculated and how the thresholds will adapt to take into account the sophistication of fraudsters who will seek to exploit fixed regulatory thresholds;
- Expand the application of Transactional Risk Assessment to online merchants and online merchants' Payment Service Providers and provide the payee's Payment Service Provider with equal powers to trigger Transactional Risk Assessment.
- Expand the dynamic linking requirements to allow for Transactional Risk Assessment

## **2. Facilitate interoperability of payment systems between all Member States and all online devices**

The fast pace of mobile (m-)commerce growth is helping to drive the overall growth in the e-commerce sector. Ecommerce Europe urges European policy makers to facilitate this growth in their design of all payments-related policies. In order to foster cross-border trade, interoperability between payment systems of Member States is essential. There should be an integral approach to the payment systems market, in order to produce future-proof legislation. Regulatory action should only be undertaken where the market itself is unable to come up with integrated solutions.

In light of the European Commission's proposals on geo-blocking<sup>2</sup>, Ecommerce Europe calls on European policy makers to facilitate the highest level of harmonization of electronic payment systems between Member States. In a fragmented market of competing and non-compatible electronic payment systems, obliging European online merchants to offer equivalent electronic payment options in each targeted market is too high a burden to online merchants, particularly for SMEs.

#### *a. Work towards a clear, interoperable and standardized set of communication interfaces*

Innovative payment solutions provide both online merchants and consumers with more accessible, cheap

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<sup>2</sup>For more in-depth recommendations, please download our Position Paper on Geo-blocking (March 2017) at <http://www.ecommerce-europe.eu/position-papers>

and secure payment solutions, leading to an improved customer check-out experience and improved conversion rates. To enhance competition, a standardized application programming interface (APIs) framework for banks is crucial. This gives room for the market to focus on innovation by removing integration issues. Ecommerce Europe calls on European legislators to closely engage with the technical expertise of the Euro Retail Payments Board to develop specific industry standards to prevent the further fragmentation of the electronic payments landscape.

*b. Acknowledge the potential of mobile wallet solutions to improve cross-border usability of cards*

The introduction of innovative mobile wallet solutions has greatly simplified online shoppers' check-out experiences leading to vastly improved conversion rates for online merchants in participating countries.

Providing a One-Stop-Shop, mobile wallet solutions are a viable candidate to bridge the gap between online, offline and mobile payment contexts and to improve the cross-border usability of cards. They can be used both in an online and offline environment, different funding sources provide consumers with the flexibility they need, and a uniform interface on the merchant side enables merchants to rationalize payment options. Since mobile wallet solutions add another player to the value chain, with their own rules regarding fees and chargeback rights, this may result in added complexity for retailers, in case chargeback handling or refunds are required.

Ecommerce Europe welcomes mobile wallet solutions as a valuable addition to the electronic payments landscape, as long as they are accessible to a large number of consumers, offer excellent usability, and costs are in balance to their added value and calls on legislators to acknowledge the potential of mobile wallet solutions by providing for more harmonization, accessibility and clarity regarding the legal framework, fee structure and chargeback rights.

### **3. Safeguard market newcomers' access to banks' customer data**

Third-party Payment Providers (TPPs), one-click-buy options, wallet solutions and other innovations can accelerate product development and stimulate cross-border purchases, as long as they adhere to the same security standards that regular merchants provide. Innovations in online banking solutions should be stimulated, as they can facilitate mobile payments and merge online, offline, cloud, and P2P payments.

To ensure the success of market newcomers in the electronic payments landscape, and provide customers with the highest level of check-out convenience, it is important for these innovative online banking solutions to have adequate access to both the data held and the personal security features applied by account servicing payment services providers, such as banks and similar financial institutions.

Ecommerce Europe urges policy makers to demand adequate communication by the issuing banks and third parties developing the services, and to ensure open, interoperable and secure standards for APIs to facilitate fair competition and a level playing field between market newcomers and established players.

### **4. Support developments in pan-European electronic Identification schemes**

Ecommerce Europe believes that the mutual recognition and interoperability of national electronic Identity schemes could provide a significant boost for security, convenience and trust in the European cross-border e-commerce market.



For merchants, it is fundamental to verify the identity of the consumer for many reasons. Having e-Identification schemes based on real IDs verified by governments or other trusted parties would greatly assist in the fight against, and reduction of, cybercrime and fraud. In addition, it would allow for effective age verification - which would be useful for age-dependent services such as online gambling or certain products or services. For consumers, properly functioning and reliable e-Identification can help secure their online identities and will increase trust and convenience in (cross-border) online shopping.

Ecommerce Europe therefore calls upon national governments to encourage the development of interoperable electronic identity schemes, and to notify the European Commission of national e-Identification schemes in order to move towards a mutual pan-European recognition and acceptance.



## **Ecommerce Europe**

Rue de Trèves 59-61  
B-1040 Brussel - Belgium  
T. +32 (0) 2 502 31 34  
[www.ecommerce-europe.eu](http://www.ecommerce-europe.eu)  
[www.ecommercetrustmark.eu](http://www.ecommercetrustmark.eu)  
[info@ecommerce-europe.eu](mailto:info@ecommerce-europe.eu)  
 @Ecommerce\_EU