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PAYMENTS DRIVING DIGITAL TRANSFORMATION

The world of payments is being transformed and disrupted as we speak. New fintech entrants are emerging and promoting innovative means of payment on top of the traditional methods such as cash and cards and are geared to change consumer behavior and shopping preferences.

Biometric, contactless or app-based payments have driven new consumer-centric business opportunities, mostly in the digital ecosystem but also in the physical retail space. With all of this innovation, regulators around the world have developed frameworks to create a safe and secure transactional context in which latest solutions may develop and flourish in tandem with the use of cash. This situation has raised a plethora of concerns focusing, among other aspects, on whether major regulatory frameworks like GDPR are truly effective or how relevant cash is in a more digital society, not to mention identifying key financial inclusion measures to better explore economic opportunities worldwide.

These aspects were given prime consideration at the 2019 edition of the **European Payments Summit**, which took place in The Hague on 25-26 April, and were often related to another major topic revolving around risk management and mitigation in the context of digital identity and security.

Under the heading *Payments Driving Digital Transformation*, the event attracted over 170 senior payments professionals from around the world to engage in a two-day event and focused on discussions and debate about the implications of these changes and the need for both national and global alignment in the payments landscape.



A word of welcome from The Mayor of Hague

The Mayor of The Hague opened the event with a warm welcome, emphasizing the key importance of the EPS 2019 program theme, 'Digital Transformation,' in the light of the challenges posed by new technological innovations. **Pauline Krikke** highlighted the importance of innovation in the world of payments and finance, as well as the need to address online theft and cyber-technology and its impact for consumers. The Mayor also noted that traditional policies, existing regulations and law enforcement mechanisms should address all the issues stemming from the digital transformation phenomenon.



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Payments Driving Digital Transformation

The Mayor's speech was followed by the event's first panel discussion during which it was acknowledged that the regulatory climate and technological advancements are key drivers to digital transformation. Therefore, the ideal scenario is the constant collaboration between regulators and the organisations that are leading the digital transformation wave by investing in new technologies.

This was the opinion of **Andréa Toucinho**, Payments and Financial Services Expert, who identified the burgeoning partnership between banks and the FinTech companies that promote technology as the key factor of services evolution towards a level-playing field with the needs and expectations of the digital consumers. Andrea insisted that, despite Europe's diversity as a market, countries the likes of France, Italy and Spain significantly collaborate with each other in the fintech space.

Harry Smorenberg, the panel moderator, highlighted that the transactional context is already becoming more "touchless" and real-time thanks to the new technologies available on the market. However, the industry needs data standardization in order to eliminate the faulty means of storing personal data because, after all, it is all about data and new opportunities may arrive with new ways of handling and structuring data diversity.

Julian Sawyer, COO Starling Bank, analyzed the payment process as an integral part of the customer shopping experience and identified the transformation of the process into a service, namely the payment-as-a-service.

Gerard Hartsink from GLEIF, on the other hand, raised some concerns about the proper approach we should follow to upgrade the payments systems in order to meet the requirements of the future. Gerard also insisted on collaboration between parties to create more simplicity and eliminate payment friction. With that as a background, he stated there were still issues to overcome: including who should own collected data in partnerships involving private-public parties?

The panel discussion concluded with the overall sentiment that it is highly important to understand that, just as regulation can help innovation by identifying all the opportunities leading to safe, secure and long-term business that is brought about by new technologies, so can innovators help regulators by supporting new business opportunities, thereby keeping the wheels of evolution turning.



The Brave New Payments World - A Regulatory Challenge

During this panel, **Gijs Boudewijn**, Deputy General Manager at the Dutch Payments Association, emphasized a certain 'gap' manifesting at the core of the financial services, mentioning that "the basic problem with any regulation is that it always gets outdated by the time it's implemented." The industry needs to overcome this 'gap' and collaborate to identify and set in practice that common goal which is beneficial for all the parties involved.

Petra Hielkema from De Nederlandsche Bank explained that such a gap is inherent to an industry moving towards a rule-based approach in a fast-changing environment. Continuing to strike the right balance is a challenge, but the industry should strive for this goal.

Monica Monaco from TrustEuAffairs emphasized the need for more clarity on Strong Customer Authentication (SCA) and other technical standards, whilst PaymentCounsel's Nadja van der Veer's remarks focused on the initial PSD2 good intentions, while also stating that "with all the uncertainties, it has become very complex. A lot of questions still need to be answered and let's not forget that next to the Access to the Account requirements there has been a lot of other changes under PSD2 and the compliance burden has definitely increased for the existing players".

AI & Quantum Computing for Banking and Insurance: Fortunes and Challenges for China and US

Paul Schulte, Founder of Schulte Research, argued that such state-of-the-art technologies like AI and Quantum Computing have the potential to rapidly change the financial system altogether. Companies in the Far East are already experimenting with AI methods to commercial benefits and a great example is Alibaba which

Schulte mentioned that the fundamental problem brought about by tech giants like Alibaba and Amazon in the payments space is that they tend to morph into full-scale finance services companies, thereby surpassing banks. This social element, whereby companies can tap into consumers' social life activities, is key for banks to adopt and become competitive.

He also stated that payments, globally speaking, are getting more polarized, with China offering a solid alternative to Swift by uniting its efforts with Russia. Therefore, the East is becoming more divided from the West. In conclusion, Schulte agreed that AI and other latest technologies can make humans better at work by enhancing their capabilities.

Migration of Cards

Among the various discussions on the survival of cards, **Victor Dostov**, President REMA, offered a brief summary of the evolution of the Russian market by stating that, a decade ago, everything relating to payments would be driven by fintech initiatives. Sberbank is already implementing fintech solutions to improve its financial services and is currently processing more than 80% of P2P payments as opposed to 5 years earlier when all such payments had been processed by wallet alternatives.

While Dostov focused on explaining the successful adoption of alternative payments internationally, Don Ginsel from Holland FinTech, argued that cards can still survive but in digital form.

Iryna Agieieva, Product Owner Payments at Booking.com emphasized that what the customer experience while purchasing a service or product represents the key element. Therefore, global companies have to offer localized services and providing alternative payments popular in the markets that companies operate in is key.

The panel discussion then focused on whether mobile devices should be seen as the bedrock of the solutions of the future, or whether merchants should be persuaded/ encouraged to accept cash as opposed to mobile payments and cards. Regulation may help because increasingly cashless societies tend to overlook the underserved and regulators should ensure within the development of these policies that this may not be the case.



B3 Digital Identity: Foundation for the Data Economy

The panel discussions revolved around the evolution of digital identity solutions and what the private and public sectors can do to ensure long term cooperation and business opportunities. The speakers also addressed important questions such as how digital identity infrastructures can deal with the need for consent across all sectors?

Douwe Lycklama, Founding Partner at Innopay, pointed out the need for cross-sector identity as key to progressive collaboration in the digital identity space. Lycklama explained that digital identity is an enabler for many commercial as well as societal opportunities, a two-sided market which is very similar to payments. The identity factor has always been integrated in the payments experience. Now, it has become more visible because it is becoming more separate and further explored in the identity solutions developments of security companies.

One important aspect that these companies need to consider is investing energies in educating consumers on how to use such solutions and what issues it helps to protect them from. Of course, government initiatives would be welcome to strengthen this part of the industry. He concluded that when people, organisations and other factors are identified, only then will there be scope to help move societies ahead.

Daniel Goldscheider, CEO yes.com AG, identified a dichotomy in the e-identity services industry whereby heavyweights like Google and Facebook offer quantity, a.k.a. a plethora of solutions, while banks offer fewer solutions but of more quality. Hence, there is the quantity versus quality issue, begging the final question: who will eventually get ahead in the race?

Piet Mallekoote, CEO of Dutch Payments Association, firmly believes in Sweden-style successful examples of private-public sector cooperation e-identity projects as the right path to follow, although there is currently much fragmentation in the market. Drawing GDPR into his argument on digital identity, Mallekoote suggested that the core value of this regulation is contained within the expression 'verifiable consent' which requires customer approval, prior notification and safe storing of information containing any action a business may perform as a service request.

Delivering Secure and Seamless Payment Experiences

It is essential to be aware of the latest regulatory initiatives and requirements so that any company can set them in motion when considering business expansion into new markets, as well as the specifics of these markets to ensure long term success. This was the key goal of **Caroline Birchinall's** presentation, Head of Authentication VISA, who specified that an effective PSD2 implementation, for example, is based on adoption of innovation in order to give consumers the choice and control to make informed decisions. This in turn is instrumental in building trust and security into every payments experience, expanding access to data in a secure manner and to foster competition and innovation through open standards.

Birchinall agreed that it is also important to acknowledge the position of your business and generally to stay informed of the international trends that may impact it. She gave as an example the rapid growth of digital commerce in Europe jumpstarted by digital payment innovations, which is expected to grow by 113% by 2022.

Implementation for Success - Open Banking Reality

Day two of panel discussions started with a presentation by **Marjan Delatinne** from Ripple who reaffirmed the status of trust and privacy as gold-standard assets in business collaboration and that latest technologies such as DLT blockchains can provide the required level of security and transparency for faster, flawless and more secure data transactions. However, Delatinne was pessimistic about the IoT phenomenon because it may result in increased fragmentation, due to the whole array of different interconnected gadgets, as opposed to the common goal of standardization.

Nilixa Devlukia, Head of Regulatory, Open Banking, singled out collaboration as a 'global phenomenon', a vivid and working example in the 'Open Banking' initiatives around the world. She believes that firms operating in the open banking ecosystem should be able to connect to all the banks they need to connect to and make the process fast, easy and effective with the overall aim of standardization.

Continuing down this line of thought, **Leila Fourie**, Executive GM Consumer Finance at Commonwealth Bank of Australia, stressed that there are three main hurdles that need to be overcome to realise the open banking concept. The first is the need for organisations' data reciprocity adoption which would prevent the asymmetry of competition arising in an economy where banks exclusively are forced to open up and not have a reciprocal agreement with any of the other companies involved in the value chain. The second is around social and macro-economic reform which implies, that open banking practices may exclude those individuals particularly interested in their online privacy or those without digital identities from the financial system. The third deals with geopolitical aspects whereby economies are heading from asset-based valuation to data-based valuation. Hence, in her view, societies are headed to data-driven economies.

Christian Schafer from Deutsche Bank added that APIs have the technical ability to help banks comply with PSD2 requirements and scope, but questioned whether this is enough to ensure that banks stay relevant in a fiercely competitive financial market. Should there be any other approach or regulatory initiative needed to take banking to the next level? This seems to be not just a dilemma for the banking sector but also for the corporate sector generally.



Payments Digitalisation: Shifting Market Frontiers in Asia Pacific & Africa

During this session, topics such as financial inclusion in the context of payment digitalization and transformation took centre stage and the common question being put forth was around predicting the impact on society of the continuously evolving ways in which the retail sector is offering financial services.

Kinda Chebib, Consultant at Euromonitor International, focused on the African landscape, characterized by growing trends in digital solutions adoption and overall infrastructural developments in the retail space. Similarly, banking is an area of huge potential, with emphasis on internet banking, as well as manufacturing.

Chebib also focused on key trends in the APAC region, an area dominated by an ever-increasing wave of fintechs promoting cost effective digital solutions, followed by cards, to the detriment of cash, which is stagnating and in some regions, declining. Against this backdrop, in Chebib's view, regulators are more aware of the need to develop new measures to help ease the transition to a cashless society. Additionally, regulators have realized that markets need fewer and simpler regulatory guidelines with more efforts on educating and financially including the underserved.

In conclusion, Chebib highlighted the key hurdles to financial services adoption by consumers in emerging markets such as financial illiteracy, lack of infrastructure, trust and reluctance to innovation, especially in the retail space, issues which should be eradicated both by regulatory measures and business strategies. Lastly, consumers should be convinced that the new solution adds value, is more secure and offers more rewards.



Alignment of Real Time Payments Across International Borders

Saskia Devolder, moderator and Head of Western and Central Europe at SWIFT, opened this panel by broaching topics like the state of instant payments initiatives around the world, the predicted and actual impact in certain European markets and what role the fintech players have in disseminating and implementing its principles.

In a question to **Inge van Dijk** from Dutch Payments Association, Devolder suggested that there was a certain pessimism relating to the effectiveness of European initiatives in instant payments due to their nationwide application instead of cross-border scope. In her reply, van Dijk mentioned that such national initiatives can easily scale to more countries because they follow the principles of reach and interoperability, whilst being designed with EU-wide application from the outset.

Ervin Kulk from EBA Clearing argued that the next big thing is for payment systems to create economies of scale based on instant payments. When asked by the moderator if the European consumers have the right tools to access instant payments, **Karen Birkel** from European Central Bank said that Sweden is leading the way in this context and, although many countries do not fully offer such services, it should become something that can be widely used so that new services and opportunities may arise.

Live Five: 5 things the industry should be focusing on in the year ahead

Dave Birch from Consult Hyperion provided a review of the transactional context from 2018 to present and into the near future. He started by presenting his 2018 key trends predictions focused on the development of Open Banking, Conversational Commerce, The Internet of Cars, AI solutions in the Transactional Space and Tokens. His 2019 predictions began with SCA initiatives which will rule out 2-factor authentication and leave room to real cryptography and wallets security solutions, Digital Identity initiatives moving further into the realm of IoT. In his opinion, these are the key technologies for 2019 that customers should be spending more time thinking about, planning for and use to deliver products and services in the electronic transactions space.

Conclusion

A defining aspect and theme dominating the 17th edition of the **European Payments Summit** was that collaborative strategies should encourage the development of a safe, secure and transparent transactions ecosystem, fully compatible not only with the cash-based societies, but also with the new wave of technologies set to improve and transform our society. Whereas competition divides, collaboration unites and empowers.

Join us in Madrid 2020 for a new and revamped edition of **Europe GPS** where we will invite industry experts and gather seasoned practitioners to continue the discussions and debate on the most relevant topics in retail payments !! GPS is the premier platform to meet central banks and regulators with oversight to afford change and promote innovation in the industry: don't miss the opportunity!



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