

Retail payment innovation

Introductory remarks

The Chair opened the panel by emphasising the dynamism of the retail payments space in Europe. The European Central Bank (ECB) biannual SPACE survey consistently highlights the growing prevalence of ecommerce and the corresponding decline in cash usage at the point of sale (POS). While card payments remain dominant, digital wallets are gaining traction as overlay solutions, potentially becoming in the future the preferred method of payment at point of sale.

An official noted that Markets in Crypto-Assets Regulation (MiCA) now provides a sound regulatory framework throughout Europe, which is also attractive to service providers. Stablecoins and digital euro have great potential. The legislative framework around payments in Europe is fully harmonised, which assists European or incoming players. However, during the last decade the amount of regulation has increased substantially. Other legislation, such as the Payment Services Directive 2 and 3 (PSD2/3), MiCA, General Data Protection Regulation (GDPR), and the AI Act, interacts with the payments area and there is a need for coherent, simplified regulation across sectors.

1. Diversifying payment methods ensure inclusion while preserving consumer choice and convenience

1.1 Preserving freedom of payment choice at the point of sale

An official highlighted the importance of ensuring consumer choice at the point of sale. Policies measures expected to be proposed by the new German government may include that merchants cash should be generally accepted and that gradually, at least one digital payment method should be accepted.

A central bank official stated that inclusivity is a central objective within the Polish payment framework. Despite growing digital adoption, two-thirds of Polish seniors still prefer cash. Poland has mandated that businesses accept both cash and non-cash payments, but ensuring the necessary infrastructure is present, particularly ATMs, remains a challenge for the private sector. Ensuring that both cash and digital payment modes are accepted is critical to maintaining a fair and accessible payment system.

1.2 Integrating innovation without excluding the digitally underserved

A consumer representative observed that many consumers remain excluded from digital payment systems due to a lack of digital skills. Experiences from the Nordics suggest that overly rapid transitions away

from cash can backfire. An inclusive electronic system will guarantee that citizens from all backgrounds, particularly those who may struggle to adapt to digital methods, are not left behind in an increasingly cashless society. The digital euro could potentially offer an inclusive public digital payment solution that replicates many of the benefits of cash.

1.3 Supporting SMEs through adapted and functional solutions

An industry representative highlighted the transformative impact of improved payment infrastructure in unlocking entirely new business models, including multi-sided platforms, subscription services and integrated commerce tools for SMEs. Functionality is crucial for the future of Europe's payment methods and payment rails. Solutions such as BLIK in Poland must continue evolving to meet the expectations of digitally native businesses and consumers. Today's small businesses have, in effect, become technology businesses. This evolution should shape the way policymakers approach both financial services and broader tech regulation.

2. Building European sovereignty and furthering EU integration in the digital payments space

2.1 Advancing pan-European initiatives to reduce dependency on non-EU providers

A central bank official noted that a number of the core objectives of the French national retail payments strategy align with those of the ECB's retail payments strategy. These include promoting the development of pan-European solutions, for example Wero, and preparing for central bank digital currencies (CBDCs). Europe's heavy reliance on non-EU payment solutions threatens strategic autonomy. Current geopolitical tensions and developments in the US underline the urgency of reducing this dependency.

An industry representative explained that EPI is a private-sector-led initiative involving major European banks and acquirers and offering a wallet and instant payment system designed for the European market. The ultimate aim is to build a truly pan-European solution by ensuring interoperability and reducing fragmentation, thereby contributing to European payments sovereignty. True strategic autonomy requires pan-European cross-border solutions. Rather than introducing new solutions that add fragmentation, the focus should be on interoperability between existing ones.

An industry representative stated that they support measures such as granting non-banks access to settlement systems and promoting interoperable

national schemes to ensure European strategic independence.

A central bank official noted the importance of creating systemic resilience through payment method diversification and infrastructure redundancy. Availability of different payment methods, such as cards, mobile payments or cash, addresses the needs of multiple groups, promoting inclusion, and ensures that payments can be executed even if some payment rails malfunction. In Poland in 2022 cash demand surged due to heightened perception of geopolitical risk. The whole payment infrastructure, including electronic payments systems, needs to be ready for these surges in demand. Infrastructure diversification at a deeper level will ensure that alternative payment rails are not reliant on the same technical infrastructure, suppliers or software. Digital Operational Resilience Act (DORA) tools can be used to ensure that backup systems are in place and to map ICT dependencies, including single points of failure. Redundancy should be viewed as an investment in security rather than a cost.

2.2 Interoperability as the cornerstone of an integrated European market

An official emphasised the importance of cross-border integration and interoperability in building a unified retail payments ecosystem in Europe. Local payment solutions are increasingly perceived as insufficient to address the demands of a pan-European market and do not align with the objective of the European Commission of a more integrated and beneficial retail payments ecosystem. The future viability of these local solutions relies on their ability to interoperate or scale beyond national borders. Integration can be built on pre-existing technology, payment solutions, clients and markets, provided they adopt shared technology standards and develop common infrastructure. Interoperability will potentially lead to a more equilibrated growth and governance path.

A central bank official stated that a pan-European payment solution, which can provide alternative to card schemes, can be built by broadening country reach of successful local mobile payment schemes (such as Ideal, Bizum, Swish or BLIK) and creating interoperability links between them.

2.3 Leveraging public-private cooperation for effective deployment

A central bank official shared that French national retail payments strategy is a jointly developed strategy involving both public authorities and private stakeholders. Key objectives are agreed with all stakeholders on the supply and demand sides and the public authorities. The strategy considers both cash and non-cash payment instruments. The evolving international context has created a strong impetus for more rapid progress in the coming period.

An official identified the public sector's crucial role in providing a legal and institutional framework that fosters collaboration, competition, and convergence toward a more integrated European market.

3. Enhancing security and resilience in response to the rising threat of fraud

3.1 Adapting fraud prevention frameworks and tools to evolving threats

A central bank official observed that the growing threat of social engineering fraud cannot be addressed through financial education alone. A coordinated response involving telecoms and other sectors is required. Although behavioural analysis can be useful to combat frauds involving stolen credentials, questions have been raised in Poland around how these tools should be treated under data protection law. EU regulators may need to balance between allowing financial institutions to use behavioural analysis with concerns around personal data protection.

An official indicated that there is ongoing EU Council work to combat social engineering fraud through a three-pillar legal framework focusing on prevention, including enabling data sharing to combat fraud, revisiting liability rules to strike the appropriate balance between consumer relief and legal certainty for payment services providers (PSPs) and cooperation with telecommunications operators. Regulation is not always the best tool to resolve issues, and practical solutions may be better explored through other platforms or forums.

A consumer representative commented that, although strong customer authentication has been extremely effective in reducing unauthorised payment fraud, new threats, especially social engineering fraud, have now emerged. Techniques such as AI voice cloning and number spoofing have made it easier for fraudsters to manipulate consumers. A survey conducted by BEUC's 44 national independent consumer organisation members concluded that concerns around payment fraud were a priority for consumers. This is a systemic problem across European member states.

An industry representative remarked that the key is, and has always been, to find the right balance between convenience and safety. Even if they are initially hesitant, consumers tend to adopt convenient solutions fast, as illustrated by the popularity of contactless in Europe, which now represents the majority of Mastercard's volumes at point of sale. Online card payments remain cumbersome, as it is usually still necessary to enter card credentials and details, or less secure if the card credentials are saved by the PSP or ecommerce player. Tokenisation is helping to address this by replacing credentials with a token that, even if it is stolen, is much more difficult for the fraudster to use.

3.2 Ensuring fair liability distribution for fraud victims

A consumer representative reported that European Banking Authority (EBA) and ECB data confirms that consumers bear most of the losses from social engineering types of fraud, with 86% of credit transfer fraud costs falling on them. Policymakers should

ensure that the new Payment Services Regulation reflects contextual fairness in liability for fraud victims. In addition, greater accountability should be required from the social media platforms that are often used to propagate fraud.

3.3 Investing in cybersecurity and global data-sharing mechanisms

An industry representative commented that cybercrime is a macroeconomic threat. Risks are increasing with the wider availability of AI and the faster movement of money through instant payments. Mastercard has invested \$10 billion in fraud prevention technologies and global data-sharing mechanisms and recently acquired Recorded Future, a company that focuses on monitoring and preventing threats. Mastercard's global scale and perspective is an asset because knowledge of types of fraud from different parts of the world can be used to prevent fraud in Europe. Public-private cooperation via forums such as Mastercard's Brussels-based cyber resilience centre will be extremely valuable.

4. Instantaneity, value-added services and innovation are redefining the future of payments

4.1 Accelerating the adoption of instant payments as a new standard

The Chair noted that fast-emerging initiatives across the European Union include the deployment of point of interaction (POI) solutions based on instant payments and the digital euro. Instant payment-based payment instruments are closer to deployment than the digital euro, but their market share has yet to grow significantly.

A central bank official stated that a deeper Single Euro Payments Area (SEPA) ecosystem, as stated as one of the core objectives in the French national retail payments strategy, will enable the deployment of instant payments

An official commented that Spain has become an important global player in the arena of instant payments thanks to the collective efforts of the banking sector to develop Bizum. Work is now ongoing on interoperability with other countries, such as Portugal and Italy, to develop a European approach.

A central bank official reported that BLIK accounted for 50% of ecommerce transactions in Poland in 2024, a dramatic increase from 10% in 2020. BLIK started as a joint venture of six large Polish banks, which provided a critical mass of clients from the very beginning. The multifunctional capabilities of BLIK, including ecommerce transactions, POS payments and convenient P2P instant payments using mobile phone numbers cater to the needs of modern consumers. A smooth user experience is a priority. Robust security measures, such as single use six-digit codes and the confirmation of each transaction in a banking application, address consumer concerns around fraud and safeguard the integrity of electronic payment systems.

An industry representative indicated that instant payments are expected to grow globally from 275 billion transactions in 2023 to 575 billion by 2028. Instant payment solutions are clearly addressing a need. Digital wallets are increasing in popularity with consumers in Europe. In addition to the digital giants, such as Google, PayPal and Apple, domestic champions in Europe, such as Swish and BLIK, are also active in this area.

4.2 Creating value beyond the transaction

An industry representative commented that, in the context of an intensely competitive marketplace, the success of digital wallets will depend on offering value-added services such as loyalty programmes and ticketing.

An industry representative explained that Wero supports a wide range of use cases including peer to peer (P2P), ecommerce, point-of-sale, recurring and conditional payments, as well as value-added services. The aim is to create a pan-European solution that meets the needs of European consumers and merchants.

4.3 Making the digital euro a catalyst for business model innovation

The Chair remarked that the digital euro, which is still in development, is expected to play a major role in the future payments landscape.

An official shared that Germany views the digital euro as a complement to, rather than a replacement for, cash. Given the relatively high usage of cash in Germany, clear communication to emphasise this will be essential to ensure public acceptance and understanding of the digital euro's intended role within the monetary framework. Achieving effective privacy and preserving financial stability as well as wholesale use-cases are main considerations in Germany.

An industry representative welcomed the ECB's exploration of conditional payments within the digital euro project, which unlock novel business innovations.

An industry representative noted that there is a great deal of interest in CBDCs globally and in Europe. Some aspects of CBDCs could be groundbreaking, while other aspects are already addressed by current solutions. Mastercard is actively partnering with central banks to integrate secure technologies and ensure compatibility with existing rails.