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Retail banking: what priorities for building a single retail financial market?

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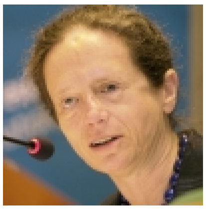

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Objectives of the session

The session was dedicated to identifying how the EU Digital Single Market Strategy (DSMS) was unfolding in the financial services area. It notably tried to clarify the challenges specific to existing and incoming players, assess actual achievements in the EU and the difficulties posed to the DSMS by cybercriminality. The session finally outlined the possibly relevant regulatory initiatives and financial infrastructures required.

Executive Summary

The demand for, and the current state of the EU single market for Retail Financial Services

There was no single retail market in Europe: many consumers did not know what a cross-border opportunity was, and those who did were not sure that they would profit from this kind of opportunity. Only 3% of consumers had purchased credit cards, current accounts or a mortgage from another EU state, and only 5% had bought a consumer loan abroad. Most consumers did not want these services, or did not have a need for them, but it was also possible that those who would have bought them had not been able to overcome the obstacles that existed, which included fixed cost regulatory obstacles, reporting requirements, and tax impediments. Consumers also exhibited different behaviours in different countries, and people's ages also affected their behaviours: some citizens still wanted to speak to people in person at a physical bank branch, but there was also an increasing number of 'digital natives'. As such, the needs of these different types of consumers would have to be taken into account.

The European Commission's Green Paper on retail financial services, adopted by the European Commission in December 2015, had received 428 replies and between 180 and 200 had been from individual citizens. Citizens expected that they should be able to buy financial services cross border, but, they faced a number of issues such as lack of information about products available in other Member States, or data protection concerns. that made cross border buying and selling harder. Favouring competition was also vital, and pass-porting was critical to the development of a retail single market. The barriers to a single European market tended to be the result of domestic-specific consumer protection regulations. Customers' concerns were primarily convenience, trust and cost; any system to unify the market would need to address each of those issues.

These expectations came in a context where customers were becoming more and more demanding, wanting 24-hour service and immediate answers to any of their demands, as well as the opportunity to have a face-to-face relationship. European banks needed to move towards digitalisation for the sake of their own citizens and customers, but should not lose sight of the need not to impair confidence, which was has been based on face-to-face relationships. Finally, customers wanted more digital interaction, but were not explicitly demanding cross border banking.

Main Impediments and risk of a Single Market for Retail Financial Financial Services

Predominant domestic bias

Digital exclusion was a potential impediment to a single retail financial market. Inefficiency in the home/host environment was also an important impediment as it required to devise multiple IT systems to address for example the Anti Money Laundering (AML) requirements of each individual country impeded innovation and increased costs to the consumer.

Some elements of supervision needed to become a little broader and more holistic. There it might be helpful to look at the status of apps as a way of determining whether a bank needed additional liquidity: if banking was done more digitally, and if users did not have efficient and appropriate apps on their smartphones, then banks would have liquidity problems when their customers took their business elsewhere.

One representative of a bank felt that the biggest major obstacle on the demand side was the lack of a single deposit guarantee fund; the lack of a European Deposit Insurance Scheme created fragmentation as witnessed by the crisis during which deposits moved in search of stronger banks in strong Member States. The harmonisation achieved via the Directive had been a step in the right direction, but had not been sufficient. On the supply side, although passporting and common frameworks were in place, local AML and KYC demands varied, and more coordination would be welcome. Data protection was another key issue.

Limited demand and difficult access to domestic customers from abroad

There were also demand side issues relating to consumer protection, where clear rules were required, and in the area of contracts: consumers still had doubts around the applicable jurisdiction, for instance. Furthermore, customers did not engage much with financial services, and were not very vocal about the need for a single European market. People from younger generations were difficult to contact; they would not read generic letters, and to contact these people, you needed a primary account. Accessing to account information, a bank could then send meaningful and relevant information to a client.

Initiatives to Encourage Further Integration

Key possible Policy Initiatives

The single market was premised on the idea that more open economies generated more competition, which in turn created more productivity and better outcomes for consumers. The area of payments was one where the benefits of competition could be demonstrated: consumers wanted to be able to make payments when they went on holiday, when they lived abroad, and when they worked abroad.

The work that had already taken place across Europe regarding financial stability had been very valuable, and what had been done on the Single Rulebook, CRR, CRD4 and Bank Recovery and Resolution Directive was done also to rebuild trust of EU citizens. The question of redress would also need to be considered; this could be addressed through encouraging the national ombudsmen that existed in different countries to work closer together. A EU regulation relating to data protection had now been adopted, and would come into force in 2018.

Investment in IT needed to be encouraged within banks, as the accounting framework did not help them to meet the goal of creating a single retail financial market, indeed software has been identified as an intangible asset, and this is very costly for us in terms of capital. All players in the market needed to contribute to digitalisation, and banks – given the additional regulation that they worked under – would need particular help to digitalise effectively.

The European Commission had already created a palette of tools containing a number of ideas and initiatives, in order to address the issue of retail. Indeed, the issue of retail was a multifaceted one: payments, for instance, lent themselves to harmonisation well, but others did not.

In some areas, such as motor vehicle insurance, the problem of compensation at different levels had already been seen, and further harmonisation work would need to take place in this space. Increasing the portability of pension schemes was necessary, and this would not work without a common legislative framework. Harmonisation was more difficult in other sectors, such as mortgages.

European Commission regulations could also contribute more in a number of spaces, including digital onboarding. A European Deposit Guarantee Scheme would help make customers feel more comfortable about putting deposits in banks.

There needed to be more interconnection between DGs to make sure that the agenda of building a single retail financial market could be pursued, and also to preserve the added value of each banking model, which might have something to offer in relation to these new retail financial services.

The challenge was how to strike the right balance between legitimate differences between national markets and producing value for consumers by doing things at a more consistent level across the whole EU. Very different answers to these questions arose depending on which aspect of retail financial services was being considered. One should be open to other ways by which best practices could be shared and innovation at the national level towards a common goal could be encouraged. Europe should be able to employ not only regulation, but also best practices, guidelines, various groups' initiatives, and so on. However, creating exceptions increased costs, reduced advantages and decreased competition, and consumers suffered as a result.

The Role of Digitalisation

Payments was the first field in which cross-border selling and digitalisation could go together. One European institution was about to launch a payments system based on voice-biometric technology, but there were trust issues surrounding this that would need to be addressed at the EU level.

Representative of various banks agreed that eID would been very useful for their institutions' purposes, with one noting that common rules needed to be created that everyone agreed to, and that applied to everybody. eID and trust services was one of the areas in which the European Commission could provide 'building blocks'.

It was now possible to look at where transactions were crossing borders and sectors 'more or less automatically', and as criminals did not respect borders, cyber criminality was another reason for having a European Directive.

Expected Contribution of EU Digital Market Strategy and PSD2

The European Commission's package on trust services would come into force on 1 July, so people could identify themselves via eID; the Network and Information Security Directive would also be adopted soon. A contractual public-private partnership would soon be in place to help prevent criminals from gaining access, and the Commission was also beginning an evidence-gathering procedure in relation to bad algorithms. It had created a palette of measures containing a number of ideas and initiatives in order to address this issue.

PSD2 had been a good development in the sense that it made it easier for new players to enter the market, but it also created burdens on the traditional players. The problems that existed could be managed, but consideration needed to be given to the question of what might go wrong if all payments were opened up and clients gave their identification to a new payment provider. Banks might be required to automatically compensate the client, and to start chasing all of the parties who provided new payment services. More balance was needed in this space to promote fair competition. Ways would need to be found for innovative banks to operate, with some regulatory exemptions that would make them less subject to constraints and more capable of contributing well and quickly to innovation and digitalisation.

Detailed Summary

Expectations of EU Citizens

Features and issues regarding the EU single market for retail Financial Services

The process of developing the Green Paper on retail financial services, adopted by the European Commission in December 2015, had been a very long one; it had been the most responded-to paper in the financial-services area in 2015. There had been 428 replies, which was more than for the call for evidence, more than for the Capital Requirements Regulation review, and more than for the CMU.

Of those 428 replies, between 180 and 200 had been from individual citizens. From this, the European Commission had been able to identify what citizens' expectations were. Citizens anticipated that, as they bought things like books, videos and cars cross border, they could do the same with financial markets. However, in the case of financial markets, they faced a number of issues such as lack of information about products available in other Member States, or data protection concerns.

European citizens rarely explicitly called for a single retail market

European citizens rarely explicitly called for a single retail market, even if they banked with organisations headquartered in other countries. They benefited from the fact that there had been competition. Promoting competition was vital, and passporting was also critical to the development of a retail single market. Everybody knew what the single market was, and about the debate between home and host rules and the pros and cons of each: one favoured competition, and the other consumer protection. The payments space was already very open, with payments taking place in more or less the same way domestically or across borders, but there were other areas in which this was not the case.

An entirely retail bank 90% of whom were individuals argued how to identify what customers wanted regarding banking services. It suggested that a hierarchy had to be established in relation to customers' different demands, because customers were becoming more and more demanding. They wanted 24-hour service and immediate answers to any of their demands, as well as the opportunity to have a face-to-face relationship, which they found reassuring.

Any banking relationship was based on confidence, and that confidence had been built upon over the course of decades for most European banks. Consequently, on the one hand, European banks needed to move towards digitalisation for the sake of their customers, but on the other, they should not lose sight of the need not to impair this confidence, which was based on having face-to-face relationships. There was also a need to promote digitalisation and cross-border operations in a profitable, new business model. All of these evolutions generally required a large amount of IT investment. Margins were presently under stress due to very low interest rates; this presented a challenge, which the ECB was considering currently. Banks had to continue to provide all of these services, remain profitable, and repay the confidence of their customers.

The developments that were taking place would change the model of the banking sector

A representative of a different bank explained that his institution was more of a traditional bank in the country in which it was based, and more of a digital bank abroad. Customers wanted more digital interaction, but were not currently very vocal about the need for cross border banking; however, it was possible that this might change in the future. From a macro perspective, having a good allocation between deposits and loans generated in Europe would be a positive development. If this happened, it might be that the banks that had been better at raising loans at the moment, or that had more need, could pay for deposits.

A representative of a third bank stated that his organisation had a very significant consumer interface. It was in a unique position in the money transmission business; it effectively had a single market in Europe. Through the Payment Services Directive (PSD), his institution passported in through Ireland and offered cross-border and cross-currency services throughout the EU. The barriers to this single market tended to be the result of certain individual countries' activities. Customers' needs were primarily in the areas of convenience, trust and cost. Any system to unify the market would need to address each of those issues. His institution's costs had come down, because it was more efficient for them to operate in a single unified environment.

The view of policy makers was that the world was changing, and although no politician would win elections by promising retail financial services, if they did not get this right, they would be regarded as out of touch and not understanding people's expectations. The developments that were taking place would have a macro scale impact, and change the model of the banking sector. This meant that there should be some prerequisites for financial stability, and in turn meant that EDIS had to be properly settled; otherwise, this would not work. This would also allow for a better allocation process, which was very important.

Current State of the EU single market for Retail Financial Services

The Commission's Green Paper argued that there was insufficient single retail market for Europe, and then developed a number of arguments around why it would be necessary to improve this situation: it would give customers more opportunities, and there were some financial stability reasons as well, including reducing fragmentation. The single retail market in Europe was lagging behind, because many consumers did not know what a cross-border opportunity was, and those who did were not sure whether they would be equally protected in case of problems with a product from another country.

Only 3% of consumers had purchased from another EU state

Other policy makers in the panel stressed that only 3% of consumers had purchased credit cards, current accounts or a mortgage from another EU state, and only 5% had bought a consumer loan abroad. They said that there were two reasons for this: most consumers did not want these services or did not have a need for them, but it was also possible that those who would have bought them had not been able to overcome the obstacles that existed. There were definitely some obstacles that prevented the supply side from offering attractive products to all citizens in the European Union, including regulatory obstacles, reporting requirements, and tax impediments.

However, there seemed to be huge growth potential in Europe, as well as potential to increase consumer benefits, and it would be worth following up on this in order to improve a common European retail financial market. Yet, those implementing this would need to be very prudent and choose the correct instruments.

Consumers were different in different countries

A representative of a bank agreed that, from his institution's perspective, there was no such thing today as a single retail financial market in Europe. Consumers were different in different countries:

in Germany, most customers were long-term savers, for instance. In Poland, Spain and Portugal, maturities of deposits were much shorter than in Germany. Credit cards were often used in Spain; in Poland, the UK and in Germany, customers tended to use overdrafts more often. There was still a strong local bias to consumers' products and operations in different countries.

A National policymaker stated that his institution was very interested in this issue. His starting point was always to ask what the consumer really wanted. On the policy making side, one problem that was frequently encountered was that consumers did not engage much with financial services, and were not very vocal about the need for a single European market. They wanted financial services that were better value for money; products and institutions that they could have trust in, and wanted financial services to fit with the way they lived their lives. This generally meant an increasingly digital way of living, but this was not the case for everybody.

Customers were becoming more global, or more European

With digitalisation and increasing access to different sources of information, customers were becoming more global, or more European. Digitalisation on its own did not eliminate the current barriers to an integrated market in European retail financial services. Today, within her organisation, there was a sub section of private banking and SME customers who wanted to operate across borders in Europe. Her institution tried to cater for the needs of these customers, in such ways as trying to manage cross border differences in data protection and onboarding. Demand would become increasingly European, and banks need to be prepared for that.

A policy maker stated, regarding access to finance, that a lot of the initial app developers had been young individuals looking for banking services. For electronic banking, as with e-government, the European Commission had to "go to where the citizen is, rather than asking them to come to us". Some citizens still wanted to speak to people in person at a physical bank branch, but there was also an increasing number of 'digital natives', and Sherry Turkle, a sociologist from the Massachusetts Institute of Technology, had written in Alone Together about a lot of digital natives no longer wanting to use phones. The needs of these different types of consumers would have to be taken into account.

Main Impediments to a Single Retail Financial Market

Existing National Regulations

A policy maker stated that Europe needed to prevent digital exclusion by ensuring that even those who are not digitally skilled have access to financial services.

A representative of a bank noted that, in the US, loan production in states that had more need for loans did not go via the capital markets. In Europe, his institution collected more deposits in Germany, for example, which it then invested via the capital markets and then raised money again in the capital markets to produce loans elsewhere. This created a risk of being too dependent. Relaxation of large exposure rules and a common deposit guarantee scheme system would make the allocation process for taking deposits and granting loans easier. Therefore, the EDIS is needed.

Regarding supervision, his institution had €500 billion of deposits and €100 billion of liquidity. From a supervisory perspective, it might be helpful to look at the status of apps as a way of determining whether a bank needed additional liquidity: if banking was done more digitally, and if users did not have the right apps on their smartphones, then banks would have liquidity problems when their customers took their business elsewhere. Banks had to look not only at the amount of cash that they had, but also at what services they delivered and whether these would be capable of reaching clients on a digital level a year from now. Some elements of supervision needed to become a little broader and more holistic.

Deposits were the core of the banking relationship this was a 'very political and sensitive' issue

A representative of a bank stated that the biggest obstacle on the demand side was the lack of a single deposit guarantee fund. Deposits were the core of the banking relationship, and although this was a 'very political and sensitive' issue, this needed to be addressed. The lack of a European Deposit Insurance Scheme created fragmentation; during the financial crisis, deposits had been moved in search of stronger banks. A lot has been achieved via the Banking Union project and it was a step in the right direction, but had not been sufficient. There were also demand side issues relating to consumer protection, where clear rules were required across the EU and in the area of contracts, consumers still had doubts around the applicable jurisdiction, for instance.

On the supply side, although passporting and common frameworks were in place, organisations still needed to deal with very different authorities locally. AML and local KYC demands were different, and her bank would welcome more alignment in this respect. Mutual recognition would be helpful where something had already been tested in one jurisdiction. Data protection was another key issue on the supply side: when a Spanish customer moved to the UK, none of the data they had provided in Spain could be transferred to the UK branch of the bank, even if the customer asked for this data to be moved. These problems would need to be addressed.

A representative of a bank stressed that pass-porting was not something that his institution could affect, and neither was the home/host issue. However, the consequences of a less efficient home/host environment had been made clear to him: in the anti money laundering (AML) space, pass-porting had allowed his institution to go into the various EU countries, but there had still been separate laws in each jurisdiction, which had meant that he had needed to devise multiple IT systems to address the AML concerns of each individual country. This impeded innovation and increased costs to the consumer.

Accessing to relevant data is critical to engage with potentially new customers in other Member States

A representative of a bank added that people from younger generations were difficult to contact; they would not read generic letters addressed 'Dear Sir'. To contact them, you needed a primary account; using account information, a bank could then send meaningful and relevant information to a client. Combining this with cross border retail financial services meant that data needed to be able to travel across borders, and there could not be too many impediments to this. Data protection would be a major issue in the near future.

Initiatives to Encourage Further Integration

Various key Policy Initiatives: sound financial stability, competition and innovation in payments, sharing best practices among national supervisors on consumer protection, eID, network and information security, appropriate redress arrangements, a single set of standards for data protection, etc.

A national policymaker stated that the single market in retail financial services was potentially a very powerful innovation. He stressed that for example the UK was a strong believer in the single market in general; this issue was presently being debated within the UK, and the Treasury had published a very substantial document earlier this week about the economic benefits of being in the single market. The central thesis, which applied to retail financial services, was that more open economies drove more competition, which in turn drove more productivity and better outcomes for consumers.

The focus had to be finding ways to get more competition and innovation into the market, which delivered demonstrable benefits for consumers. Payments were an excellent place to start, because consumers wanted to be able to make payments when they went on holiday, when they lived abroad, and when they worked abroad. There was much more to do on this topic, but it was not the only area in which work would need to be done. Wherever more competition could be introduced into national markets, this would be beneficial for consumers.

Financial stability was hugely important

Many acknowledged that regarding the impact of existing legislation, it was important to stress the value of all of the legal measures that had been adopted in the EU to restore financial stability. If there were not a stable financial system underpinning the single market, consumer trust would not be present. The work done on the Single Rulebook, CRR, CRD4 and Bank Recovery and Resolution Directive was done also to rebuild trust of EU citizens. Financial stability, and the achievements across the European Union in this regard, were hugely important.

Certain Member States believed that supervision was in principle a national competence, but despite that there was a lot that could be done in the EU in terms of coordination and to have European Supervisory Authorities perform peer reviews of consumer protection policies in different countries. In the UK, the Financial Conduct Authority had done some work on supporting innovation: they were trying to be much more open to innovative small companies, and to establish how regulators could work with these innovative companies to encourage them to come to market, while meeting all the high standards that they expected. Innovation and sharing best practices regarding how to create a regulatory environment which supported innovation, while maintaining standards, were other valuable areas where the Bank of England would be keen to contribute.

An EU policymaker pointed out that the European Commission had created a palette of measures, targeting retail financial services. Europe should be able to employ not only regulation, but also best practices, guidelines, and other measures.

The consumer needed to know that the redress was available

The Commission was preparing for the digital change in financial services, and in this environment, citizens principally wanted trust and security. The package on trust services would come into force on 1 July, so people could identify themselves via eID; the Network and Information Security Directive would also be adopted soon. A contractual public-private partnership would soon be in place, which was going to contain substantial investments from the European Commission to ensure that intelligent innovators working for criminals could not break in. The Commission was also beginning an evidence-gathering procedure in relation to bad algorithms, and whether this could, or should, be covered under consumer protection.

The question of redress was a vital one. First, the consumer needed to know that the redress was available. There were various ways to further develop cross border redress, including through the network of national ombudsmen that existed in different countries (Fin-Net). These worked relatively well at the present time, but their cooperation could be improved. There needed to be closer linkages between the ombudsmen: when citizens complained about companies, they should not be told by one of them that it was the citizen’s responsibility to follow up with the relevant supervisor.

Another EU decision maker stated that data protection was a problem that the European Commission was hopefully in the process of solving. This was a problem that had been identified in multiple sectors across the digital and tangible economy. A regulation relating to this had now been adopted, and would come into force in 2018, so there would be one standard of data protection across all EU member states. Transfers of data would be allowed, with the permission of the citizen involved. This would be followed up with a free-flow of data initiative, which would address the issue of geo-localisation – i.e. the demand that data be kept only in one jurisdiction – to free up the data, again with appropriate consent.

Various regulatory tools and cooperation approaches between regulators were required depending on which aspect of retail financial services was being considered

A very interesting instrument for the finance and banking sector was already present in the current directive, in Article 27: i.e. the possibility of sectoral codes of conduct. This represented an opportunity to apply the overall requirements of data protection to the specificities and needs of a certain sector. He was in the process of creating a code of conduct regarding mobile health apps, working with big European and global players such as Apple, Google and Samsung.

A national policymaker stated that the challenge, as always, was how to strike the right balance between legitimate differences between national markets – where the principle of subsidiarity applied – and producing value for consumers by doing things at a more consistent level across the whole EU. The challenge had come from the fact that very different answers to these questions arose depending on which aspect of retail financial services was being considered: pensions was different to payments, and there was a stronger case for a single retail market for the latter than for the former.

Having two DGs might not be enough to solve data protection concerns

The impediments and benefits had to be understood at quite a segmented level. In some places, a real benefit would arise from legislation, as had been the case with the PSD; there were also lots of other tools, and Lord Hill had done a very good job in thinking about different tools that would have an impact across the whole EU, rather than just legislation. One should be open to other ways by which best practices could be shared and innovation at the national level towards a common goal could be encouraged.

A EU policymaker stated that innovation and best practice were necessary, but given the number and breadth of the topics that had been touched on, even having two DGs might not be enough to solve all of these problems, including data protection and clear rules of contracts. There had to be interconnection with the other DGs to make sure that this agenda could be pursued, and also to preserve the added value of each banking model, which might have something to offer in relation to these new retail financial services. By the end of September, there would be a vote in ECON, where the position of the Parliament on the Retail Finance Green Paper would be defined. It was important that the right message was sent to the European Commission, to enable them to come up with the right proposals.

Another EU policymaker commented that some achievements had already been realised, and this work would need to continue. The regulatory framework needed to be monitored intensively to determine where it could be improved and where there were obstacles. It might be necessary to further adapt disclosure requirements at the European level to digital world, and a conflict-resolution mechanism needed to be reinforced for the purpose of consumer protection.

The Role of Digitalisation

A representative of a bank stated that European Commission regulations could contribute more in a number of spaces, including digital customer onboarding. Asking Italian customers who came for instance to a Dutch institution to show their passport in order to open an account was 'a bit unfriendly'; there were examples in Germany of how this could be done better, where video-onboarding was an option. A European Deposit Guarantee Scheme would help make customers feel safer about putting deposits in banks. As long as this was national, this meant thinking more about what it was worth, which was not an issue that customers considered frequently.

The more digitalisation took place, the more physical contact was necessary

A representative of a different bank stated that payments was the first field in which cross-border selling and digitalisation could go together. In this field an institution was on the verge of launching 'Talk to Pay', which was based on voice-biometric technology and would make payments a lot easier and safer. However, the enrolment to initiate the system, which recorded users' voices through face-to-face meetings, would be done through a post-office network. The more digitalisation took place, the more physical contact was necessary, because trust needed to be created. The voice and identity needed to be verified at the same time at least once during the process.

Everyone experienced some difficulties related to data security in their own jurisdictions, even when exchanging information on a national basis. Sharing information on a European basis, for example, might create value and lead to new customer segments through the identification of previously unknown patterns, as well as new tariffs.

A representative of a third bank stated that eID had been very important to his institution, with its accompanying advancements in verification, including thumbprint and facial recognition. India had gone from having virtually no verification systems to having a 'remarkable' biometric identification system, and these types of developments were critical to advancing digital innovation in the payments space. His organisation wanted to make sure that there was harmonisation, and that this was not reduced by individual countries. If the goal was to create a single financial market, common rules needed to be created that everyone agreed to, and that applied to everybody. Creating exceptions increased costs and reduced advantages, and consumers suffered as a result.

KYC: Facebook knew more about young users than any bank had ever known about

These kinds of barriers also reduced competition. He was heavily in favour of competition, and wanted to make sure that his bank was as competitive as possible. As such, harmonisation throughout all member countries and resolving the home/host issues were critical goals. Those who argued for maintenance of the status quo would be ‘left behind’; at present, innovations were being introduced that nobody present could imagine. With respect to KYC, Facebook knew more about young users than any bank had ever known about any of its clients, and used this information in different ways, although with privacy caveats. These trends were going to continue, and the question was whether the regulation would trail it or lead it. If regulation stayed ahead of these developments, there was a better chance of controlling and protecting consumers.

A Member of the European Parliament stated that digitalisation posed challenges and threatened to ‘wipe out’ some things, but also represented a valuable opportunity to start at a new level. In some areas, such as motor vehicle insurance, the problem of compensation at different levels had already been seen; this needed to be harmonised. To promote higher labour-factor mobility, portability of pension schemes was necessary, and this would not work without a common legislative framework. Harmonisation was more difficult in other sectors, such as mortgage funding: in some member states, there was no registration of ground or estate. In terms of securitisation, Europe was ‘opening a Pandora’s Box’. The European Commission should come forward with an action plan dealing with what could be done in the short or mid term, and what should be then tackled from a longer-term perspective.

The United States was more ready for digitalisation than Europe was

A representative of a bank exposed that in the US when you lived in a city, where your banks did not have a branch you deposited cheques by imaging them on his iPhone, and did all of his interactions and payments electronically. This was the type of convenience for which people should strive, as long as it could be achieved safely and securely. The United States was more ready for digitalisation than Europe was, and his institution was now seeing competition from unconventional market participants, including Apple, Facebook, Google, and others. These kinds of competitors would create use cases and they work out how to solve technology problems, and regulating these was going to pose a challenge for regulators.

Apps and blockchains did not just stay within finance, or within one member-state

An EU Policymaker stated that it was possible to look at where transactions were crossing borders and sectors ‘more or less automatically’. Apps and blockchains did not just stay within finance, or within one member-state; therefore, there had been a need to look at the consumer protection issues that related to these areas, through the use of eID or other positive initiatives. Cyber criminality was addressed by a European Directive since criminals did not respect borders. eID and trust services were coming into force on 1 July 2016, and citizens living in Strasbourg, for instance, did not want to have a different ID to engage in a transaction in Kehl. In these areas, the European Commission could provide 'building blocks'. The Financial Stability, Financial Services and Capital Markets Union would be particularly key in this area.

All players in the market needed to contribute to digitalisation. If a bank developed an innovative business, it would always be subject to the same regulatory requirements that were required for traditional banking. Even if, for instance, a bank wanted to incorporate fintechs into their value chain, they would probably lose agility because they would be subject to the capital and remuneration requirements, and so on. This created limits on how banks could contribute to innovation and digitalisation.

Another EU policy maker stated that the timing of the initiative was extremely challenging, it needed to be borne in mind as a factor. For instance, the European Commission had intended to abolish roaming charges, which young people all over Europe had wanted. This had been delayed, however, and these young people had begun using WhatsApp instead. Finally, the issue of privacy would need to be worked on in the context of digitalisation.

Expected Contribution of the Payment Service Directive 2

A representative of a bank stated that his institution had liked PSD2, and had understood that having an account meant having the monopoly to make payments. However, where his bank had had concerns, it had engaged in customer due diligence, the Common Reporting Standard, and the Foreign Account Tax Compliance Act, which consumers did not concern themselves with. It was the other parties who had done the 'more value-enhancing stuff'. These problems could be managed, but consideration needed to be given to the question of what might go wrong if all payments were opened up and clients gave their identification to a new payment provider. Banks might be required to automatically compensate the client, and to start chasing all of the parties who provided new payment services. More balance was needed in this space to promote fair competition.

A representative of another bank stated that investment in IT needed to be encouraged within banks; the accounting framework did not help them meet the goal of creating a single retail financial market. Software had been identified as an intangible asset, which was very costly for banks in terms of capital. PSD2 had been a good development in the sense that it made it easier for new players to enter the market, but it also created burdens on the traditional players. Ways would need to be found for innovative banks to operate, with some regulatory exemptions that would make them less subject to constraints and more capable of contributing well and quickly to innovation and digitalisation.

Privacy was not a European issue, but a global one

A representative of a third bank stated that he supported the privacy initiatives and legislation that had come out of the EU. However, it was important to be aware of the fact that privacy was not a European issue, but a global one, and although it would be a major task, he would like to see some level of harmonisation of privacy globally. Having a regulatory arbitrage on privacy created huge challenges when building different systems and databases for global companies.

A national public decision maker stated he was supportive of initiatives to complete the DSM and to really get the benefits of the single market translated into customer benefits. There was a lot to do, whether on payment systems or looking at the interoperability of instant-payment systems across the single market, and he was very positive about the potential in this space, if they focused on those areas where they could make progress and deliver benefit for consumers.