

European fintech payments dialogue

The inaugural European fintech payments dialogue took place on 2 December 2021, where representatives of nine European fintechs and of European central banks discussed the opportunities and challenges of *open banking and APIs*. Moreover, the dialogue covered innovation trends relevant to the European fintech ecosystem.

Ahead of the meeting, an agenda with key questions¹ was distributed among all participants to structure the dialogue. Two fintech participants were asked to provide introductory answers for each question. This was followed by additional comments and follow-ups by other fintechs and participants from central banks.

A European API standard

Participating fintechs debated on the pros and cons of establishing a uniform and technically more prescriptive European API standard for open banking. Europe's heterogenous API landscape is seen as an extra layer of friction resulting in increased operational costs and entry barriers to further European markets. One fintech participant highlighted the difficulties associated with accommodating different or incomplete implementations of any API standard, mentioning the UK market which has a more prescriptive standard, as well as an implementation entity, which nevertheless recommends fintechs to use an API aggregator. In the following comments, some fintech participants emphasised that a European API standard may not be the solution as it would not have a decisive effect on API quality or reliability, a problem

¹ The key questions raised in the agenda were:

- What would be the benefits and drawbacks of a European uniform and technically more prescriptive API standard? To what extent can further standardisation have an effect on API quality and reliability or on market players' ability to innovate?
- What are the recent innovations and potential future developments in API fintech payment services?
- What are the next steps to improve customer acceptance in using fintechs' services based on payments-related data retrieved via banks' (PSD2) APIs?
- What would you ideally expect from the ECB/Eurosystem with regard to developments in Open Banking / PSD2 APIs within the next five years?

only industry cooperation could solve. One fintech participant mentioned that open banking is very much dependent on the API interaction with relevant processes in the (core) banking systems, and rather preferred a more direct connection. That was also mirrored by those fintechs advocating for further standardisation being a good basis but not a sufficient condition for open banking.

Fintech participants also voiced concerns over data access barriers or limits when using banks' APIs. Some emphasised the need to establish a two-way communication with banking systems that allows fintechs to establish a level of certainty for AIS and specifically for PIS operations. Others asked to expand access to e.g. credit card accounts, savings accounts, and investment accounts. Moreover, fintech participants applauded efforts to decrease the use of screen scraping and reverse engineering technologies due to the security issues these raise, instead suggesting a focus on improving data flows through regulated APIs.

Some fintech participants reiterated standards potentially affecting innovation should be avoided. In this sense, fintech participants spoke about the growing creativity of fintech start-ups and developers who require agile licensing processes and increased access to sandbox environments to test products and services. Lastly, some fintech participants considered it necessary to review regulations and provide the right incentives so the fintech and banking ecosystem together can compete against international wallets and cards.

Recent innovations in API-based fintech payment services

While the legislative aspects of open banking and APIs were not the focus of the dialogue, some fintech participants pointed to areas requiring attention from legislators. The upcoming PSD2 review, especially in the area of strong customer authentication, should ensure a competitive playing field between banks and non-bank financial entities.

The importance of increasing access to data was highlighted by some fintech participants who expressed an eagerness to offer better and more varied products and services as soon as new data sources become available, e.g. in areas such as savings and investments data. Particular attention should be placed on verifying that bank APIs meet minimum quality levels that allow fintechs to obtain the requested data. Moreover, banks' user interfaces should facilitate users' ability to grant access to third parties in a simple and transparent way. Ownership of the user-data and models to enable users to access their financial

information and share this data were also discussed as potential enablers for innovation in API-based payment services.

Furthermore, fintech participants saw increased API flexibility as a key pre-requisite to help unleash the potential of open finance in other segments of the economy. Complexities in core banking systems and APIs should not hinder the ability of non-financial sector businesses to reap the benefits of open finance.

Improving customer acceptance

Decreasing the complexity of user experiences in the customer authentication process was emphasised once more by some fintech participants. In practise the users are not as hesitant to allow access to payments data as may have been expected. Some participants shared their perception that users are willing to do so in return for highly-valued services. The hurdles in the usability (e.g. complex bank UX interfaces) are considered as a critical reason for customer dissatisfaction. Behavioural biometrics, artificial intelligence, and machine learning were mentioned as tools to increase customer acceptance of fintech solutions.

Additionally, there is increased interest from fintechs in pan-European solutions as more citizens move between countries for travel or work remotely from various locations. The lack of pan-European banking services creates obstacles to fintechs who seek to offer cross-border services. The still existing "IBAN discrimination" and the heterogeneity and specificities of national payment methods negatively impact pan-European innovative services; some fintech had to open local branches.

Expectations for the Eurosystem

Fintech participants stressed the importance of accelerating the adoption of instant payments. The scheme would ideally be adhered to by all payment service providers and these should provide free or low-cost instant payments for their customers. Fintech participants suggested this would speed-up the innovation process and support the creation of pan-European services. They also expressed the need to secure the gains already made in terms of open banking, ensuring that market participants maintain their

commitments, and avoid contesting the utility of APIs. In the area of fraud, they envision better communication channels with banks in order to quickly respond to suspected fraud cases.

Fintech participants had additional questions regarding work to facilitate recurrent payments with automatic authorisation from current accounts. They considered this a new potential customer journey to be highly valuable mainly for e-commerce and subscription payments.

Discussing on how to better achieve a dialogue between different stakeholders, monthly meetings between fintechs and the national regulator were reported in some countries. In addition, participants highlighted the need for a holistic approach for the development of open banking. This would ensure that all stakeholders in the financial ecosystem have equal competition conditions and no advantages are given to certain payments schemes over others.

Innovation trends

In discussions on emerging innovation trends, fintech participants mentioned the fast evolution in artificial intelligence, user interfaces (audio, video, (behavioural) biometrics), electronic identity used for strong customer identification, blockchain technology, as well as the investigation of the possible digital euro, and tokenisation of the economy.

Improving the current usability and adoption of open banking solutions were considered more urgent before exploring new functionalities and technologies. Instant payments were considered as a catalyst for new fintech products and services.

Annex – List of participants

<u>Participant's organisation</u>	<u>Name of participant</u>	
Deutsche Bundesbank	Mr Dirk Schrade	Chairperson
Crowdpolicy	Mr Georgios Karamanolis	
Finologee	Mr Raoul Mulheims	
Fintecture	Mr Faysal Oudmine	
Kíneox	Mr Javier Bartolomé	
Kíneox	Mr Mariano De Mora	
Neopay	Mr Paulius Tarbūnas	
Nordigen	Mr Rolands Mesters	
Peaks	Mr Rutger Beens	
Solarisbank	Mr Jörg Howein	
Tink	Mr Ralf Ohlhausen	
Danmarks Nationalbank	Mr Jacob Mølgaard Heisel	
Deutsche Bundesbank	Ms Heike Winter	
Eesti Pank	Ms Helena Kokk	
Central Bank of Ireland	Ms Mikela Triglio	
Banco de España	Mr Justo Arenillas	
Banque de France	Mr Guillaume Bruneau	
Hrvatska narodna banka	Ms Iva Kopecki	
Banca d'Italia	Ms Paolo Giucca	

Central Bank of Cyprus	Ms Stella Ioannidou
Latvijas Banka	Mr Emīls Dārziņš
Lietuvos bankas	Ms Jūratė Butkutė
Banque centrale du Luxembourg	Ms Li-Chun Yuan
Magyar Nemzeti Bank	Mr Kristóf Takács
De Nederlandsche Bank	Mr Marc van der Maarel
Banco de Portugal	Mr Rui Pimentel
Banka Slovenije	Mr Domen Božeglav
Národná banka Slovenska	Ms Iveta Behunova
Národná banka Slovenska	Ms Lenka Sidorová
Suomen Pankki	Mr Matti Hellqvist
Sveriges Riksbank	Mr Reimo Juks
European Central Bank	Mr Iddo de Jong
European Central Bank	Ms Maria Huhtaniska-Montiel
European Central Bank	Mr Jean Pierre Salendres