

Second meeting of the European fintech payments dialogue

The 2nd meeting of the European fintech payments dialogue took place on 22 February 2022, where representatives of ten European fintechs and of European central banks held a discussion on the theme of *e-ID in relation to payments*. 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 of the questions. This was followed by additional comments and follow-ups by other fintechs and participants from central banks.

e-ID in the private sector (specifically in the payments industry)

Fintech participants discussed the opportunities and challenges linked to the use of (public) e-ID in the private sector, particularly in the payments industry. Several fintechs expressed the view that e-IDs allow for legally compliant and unambiguous recognition of users, thus paving the way to improve user access to public and private services. Additionally, e-IDs can reduce the time and cost of customer onboarding and KYC processes, increase the efficiency of internal processes, improve cross-border business (if e-IDs can be used across borders directly or if solutions are interoperable), and give users full control of their data. One fintech participant pointed to the usability of both private and public e-IDs as key in enabling new opportunities for users in consumer finance (i.e. cheaper credit) or other sectors. Some participants pointed

¹ The key questions raised in the agenda were:

- What opportunities and challenges do you see for the use of (public) eID in the private sector, specifically in the payments industry (e.g. customer on-boarding, logging-in to a payment account, authorising a payment transaction, signing contracts)?
- What do you consider essential to achieve pan-European useability / interoperability of eID-eSignature solutions?
- What would be needed to ensure that the foreseen digital identity wallets will be successfully taken-up in the payments industry?
- What would you ideally expect from the ECB/Eurosystem regarding e-Identity in relation to payments over the next five years?

to positive lessons learnt from the recent roll-out campaigns of (public) e-IDs in Europe. However, some 20 years passed between the roll-out in the Nordics and eID being used there on a daily basis. The costs charged for making use of the public infrastructure were mentioned as an obstacle.

Fintech participants stressed that for programs to be successful, these should be customer-centric and focused on use cases where users were highly motivated (i.e. credit card applications) and should be targeted at lower value / higher volume areas, such as payments, in subsequent waves. It should be kept in mind that a customer has many “identities”, “qualifications”, etc. that ideally should be accessible through one solution. The roll-out of the Covid-19 pass as a mobile app was an illustration of the desirability of such forms of digital identity.

In the following comments, fintech participants voiced significant concerns over remaining challenges such as the incomplete interoperability between e-identities and stressed the need for standardization. One fintech participant mentioned that user onboarding by e-IDs has been challenging due to the lack of trust in remote proofing of identity for many years. However, this situation has been changing rapidly and, today, digital identities less often require some form of physical intervention.

Other fintech participants expressed the importance of using existing infrastructure when thinking of new solutions, considering the cost of the public infrastructure and of the investment already made.

Several fintechs emphasized the importance of increasing flexibility in regulation to enable the deployment of user-friendly technology systems. They supported that regulatory frameworks should be open to the new technologies that fintechs are bringing to the market (i.e. blockchain) and embrace industry specificities.

Pan-European useability and interoperability

Participating fintechs debated on current obstacles to pan-European useability and interoperability of e-ID solutions. Several fintechs stressed that the implementation of the eIDAS Regulation is different in each EU country. Substantial regulatory differences and specificities existed across European markets. Fintech participants reflected on the challenges posed by certification requirements unique to each of the 27

Member States and diverging national interpretations of eIDAS, which increase the cost and difficulty of expanding operations across European markets or collaborating with other fintechs in the e-ID ecosystem.

Not only interoperability should be aimed at, but a full standardisation. Participants pointed to the need to establish harmonised and accepted rules for the use of e-IDs in the private sector, in the same vein eIDAS did for the use of e-IDs in the public sector. One fintech participant reminded that industry sectors, e.g. health care or finance, typically also have national requirements or interpretations, which further complicate the use of e-ID. The participant reiterated the importance of building-up trust across industries for the development of a successful e-ID ecosystem.

Some fintechs described what they currently view as a closed e-ID landscape between service providers, who are often unwilling to open up identity resources to enable interoperability. Customers must manage the large number of e-identities they hold with different providers to access different businesses and services, leaving a growing digital footprint that may put their data privacy at risk. Moreover, customers are increasingly relying on non-European companies to help them with this. One fintech representative pointed to the potential to deliver efficiencies and value-added services by creating a central place for e-IDs that allows for stronger authentication and fraud prevention. On the topic of self-sovereignty identity and digital privacy, several fintech participants expressed support for introducing the necessary regulatory framework to have one central point to manage all digital IDs that users accumulate during their digital life and give users full control over what data is given to the businesses they interact with.

One fintech representative pointed to a major roadblock for pan-European e-ID schemes stemming from the reluctance of some Member States to give away sole-custody of identity matters, which they see as part of their sovereignty. In the area of trust services (beyond e-IDs), which are deemed less sensitive, Member States were more willing to recognize other countries' certifications and thus more likely enabling interoperability.

Some fintech participants suggested expanding some currently-used practices to improve interoperability that do not depend on regulatory action in the short-term. Consolidation and collaboration in the market (i.e. peer-to-peer company connections, brokers) can close the interoperability gap and help offer customers seemingly pan-European solutions that present options available to them in various markets. One participant suggested the use of an independent broker that understands the regulation and legislation across Member States and can support the entrance of compliant fintechs to European markets. However,

the representative pointed to some areas that would require EU-wide rules, such as individuals in Member State A who want to use a service in Member State B but cannot use their national e-IDs in that jurisdiction.

Finally, several fintech representatives touched on the importance of increasing user awareness regarding the differences and advantages of new services and technologies. This would create trust and help sustain the spread of these technologies on a pan-European level.

Take-up of digital identity wallets in the payments industry

For the successful take-up of the foreseen digital identity wallets² in the payments industry, some fintech participants re-emphasized the positive role the private sector can play in the development of high-uptake user-friendly solutions. Several participants noted fintechs are not included in e-ID discussions by the authorities, risking the creation of public solutions that are not user-friendly and might encounter adoption issues. The technical development for these solutions requires large investments and rare talents. A multitude of wallets may lead to interoperability issues. Finally, the actual adoption by users is a further challenge, for which easy onboarding and/or a killer app is required. Member States should find common ground on a standard for a digital identity wallet and allow the private sector to add value to the standard chosen.

Other fintech representatives expressed that authorisation of payment transactions (i.e. qualified signature for payments above a certain amount) will be critical for the future uptake of digital wallets in the payments industry. A focus on user experience will be key to make authorization as good as possible. One fintech participant voiced the need to have the same level of frictionless experience as currently for payments with Google Pay or any of the “X-Pays”. For this to occur, as a first step it should become possible to set the European digital identity wallet as the default ID wallet in a smartphone’s operating system. Another participant voiced the importance, in the payments domain, to harmonize the requirements for eID in cross-

² See: [Proposal for a Regulation of the European Parliament and of the Council amending Regulation \(EU\) No 910/2014 as regards establishing a framework for a European Digital Identity \(SEC\(2021\) 228 final\) - \(SWD\(2021\) 124 final\) - \(SWD\(2021\) 125 final\)](#). The European Digital Identity will be available to EU citizens, residents, and businesses who want to identify themselves or provide confirmation of certain personal information. It can be used for both online and offline public and private services across the EU. Every EU citizen and resident in the Union will be able to use a personal digital wallet.

border transactions and to ensure good standard APIs for identity assertions. The focus of eIDAS could be on enabling access to public sector services, whereas business should be in charge of the applications.

Moreover, fintech participants see an important role for the European Commission in creating standards and rules for open infrastructures and also in supporting market competition in the e-ID segment, advising that support for national governments creating their own ID wallets could lead to monopolies within national borders and impede private sector innovation.

Expectations for the Eurosystem

The importance of contributing to fraud risk management was highlighted by some fintech participants who stated the benefits of aligning fraud reporting requirements to distinguish between the methods of authentication used and thereby possibly support the use of e-IDs. Additional suggestions were to consider stricter multi-factor authentication, limit screen-scraping practices in open banking, and further develop more stringent liability standards to limit fraud risks. Moreover, fintech representatives see a role for the Eurosystem to facilitate discussions with national central banks, regulators, and the EBA to harmonize rules and procedures (i.e. processing of national identifiers).

In the following comments, some fintech participants emphasised the need for the fintech industry to have clarity on the level of assurance desired by regulators for payment use cases. This would ensure fintech investments are allocated to ensure the right levels of security.

Finally, a majority of fintech participants were optimistic about collaboration with the Eurosystem, the European Commission, and national governments to focus on the e-ID needs of the population and on evaluating promising ecosystems for the use of digital identity wallets, including but not limited to the financial sector.

Innovation trends

In discussions on emerging innovation trends, fintech participants mentioned the advances being made in transitioning from e-IDs via physical capturing to identities that are digital at their core. Some participants also cite the rise in cyber activity, which can have a long-lasting negative impact on user trust in electronic identities and signatures. They emphasize the need to have multi-channel/out-of-bound approaches to

digital identities since multi-factor authentication no longer ensures protection. Lastly, one fintech participant mirrored concerns regarding cyber-fraud and the need for further supervisory activities, referring to new trends such as deep-fakes that no current algorithm can detect.

Annex – List of participants

<u>Participant's organisation</u>	<u>Name of participant</u>	<u>Position</u>
Deutsche Bundesbank	Mr Dirk Schrade	Chair
Identyum	Mr Robert Ilijaš	
Intesa	Mr Giuseppe Mariani	
itsme	Mr Remy Knecht	
Netlock	Mr Ábel Frecska	
Ondato	Mr Liudas Kanapienis	
SETCCE	Mr Aljoša Jerman Blažič	
Signicat	Mr Gunnar Nordseth	
Signicat	Mr Allard Keuter	
Ubble	Ms Juliette Delanoë	
Veriff	Mr Janer Gorohhov	
Verimi	Mr Roland Adrian	
National Bank of Belgium	Mr Vincent Lanthier	
Bulgarian National Bank	Mr Stefan Antimov	
Danmarks Nationalbank	Mr Jacob Mølgaard Heisel	
Deutsche Bundesbank	Ms Heike Winter	
Eesti Pank	Mr Teet Puusepp	
Central Bank of Ireland	Mr Austin Carberry	
Banco de España	Ms Lourdes Cremades	

Banque de France	Mr Thomas Piveteau
Hrvatska narodna banka	Ms Iva Kopecki
Hrvatska narodna banka	Mr Tomislav Mišić
Banca d'Italia	Ms Paola Giucca
Central Bank of Cyprus	Ms Stella Ioannidou
Lietuvos bankas	Mr Jūratė Butkutė
Banque centrale du Luxembourg	Ms Li-Chun Yuan
Magyar Nemzeti Bank	Mr László Kajdi
De Nederlandsche Bank	Mr Evert Fekkes
Banco de Portugal	Ms Rita Soares
Banco de Portugal	Mr Rui Pimentel
Banka Slovenije	Ms Lara Madotto
Národná banka Slovenska	Ms Iveta Behunova
Národná banka Slovenska	Ms Lenka Sidorová
Bank of Finland	Mr Matti Hellqvist
Sveriges Riksbank	Mr Johan Schmalholz
European Central Bank	Ms Karine Themejian
European Central Bank	Mr Iddo de Jong
European Central Bank	Ms Claudine O'Connor
European Central Bank	Mr Jean Pierre Salendres