



How EU Banks Can Ensure EPI's Success



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Executive Summary

Payment card firms Visa and Mastercard have almost unrivaled influence on Europe's economic landscape. Now, a group of more than 30 European banks, financial institutions, credit institutions, and two third-party acquirers are preparing to challenge both firms' long-standing dominance in the region by launching the European Payments Initiative (EPI).

EPI represents the latest push to establish a unified payment framework in the European Union. An earlier attempt - referred to as Project Monnet - [collapsed](#) in 2011. In the years since then, the region has experienced several developments that have given the concept of a unified EU payment system renewed attention. And considerably more urgency.

Among those developments was the fallout from Russia's 2014 invasion of Crimea in Ukraine. Several Russian diplomats found themselves targeted by [U.S.-backed sanctions](#) and unable to use financial resources to withdraw cash or make purchases. The incident made clear the considerable level of sway the two financial giants hold over the financial lives of EU residents - not just the affected diplomats. More importantly, the firms will follow official directives of the U.S. government.

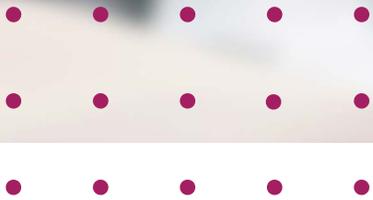


It's not just payment card companies that loom large across the EU. Tech giants like Apple and Google are also wading into the financial services arena and could pose challenges to EU-based banks. Some domestic payment methods, including iDeal in the Netherlands and Sofort in Germany, that enable person-to-person (P2P) transfers are also disrupting the card landscape. In the face of multiple players looking to expand their influence on the EU's economy, EPI is seen as a way to deliver both cohesion and sovereignty to the region.

EPI is currently in its early stages. Stakeholders have set the goal to conclude a pilot program that enables P2P payments in the first half of 2022. Following the pilot, a full implementation of the Payment Solution will progress over the course of the following year into mid-2023. A broader adoption of EPI's products and solutions is expected to unfold in the following three to four years.



Once it goes live, the EU's payments landscape promises to look very different than it does today. That's why it makes sense to start preparing for the changes that EPI will invite now.



What is the European Payments Initiative?

EPI was launched in 2020 with the goal of establishing a singular pan-European payment solution for the region. EPI is currently backed by [more than 30 European banks and credit institutions](#) as well as two third-party acquirers. It also has the support of the European Commission and the European Central Bank (ECB) and other financial players. An interim company, [known as EPI IC](#), has been established to oversee the initiative.

What is the European Payments Initiative's Purpose?



EPI has two key objectives.

Objective #1

Establish a Cohesive Payment Ecosystem Across the EU

It's easy to mistake the European payments landscape for a bowl of alphabet soup, given the number of payment initiatives that have launched in recent years, including Revised Payment Services Directive (PSD2), Single Euro Payments Area (SEPA), SEPA Instant Credit Transfer (SCT Inst), and TARGET Instant Payment Settlement (TIPS) to name a few. The EPI initiative aims to bring cohesion across the EU by introducing a unified payment solution to the region's payment ecosystem.

European Union nations have established local domestic payment schemes that enable a local ecosystem of payment services in each country. However, these schemes are also dogged by fragmentation between borders that can make it challenging for users in one nation, like France, to make payments with their cards in another nation, like Germany, without relying on existing global payment networks like Visa and Mastercard.

EPI's primary objective is to leverage existing payment infrastructure, including EU's SCT Inst and TIPS, to establish a more unified payment ecosystem for both European consumers and merchants. This infrastructure will also establish a new payment card and digital wallet option that can be used for in-store purchases, eCommerce transactions, person-to-person (P2P) transfers, and cash withdrawals.

Objective #2

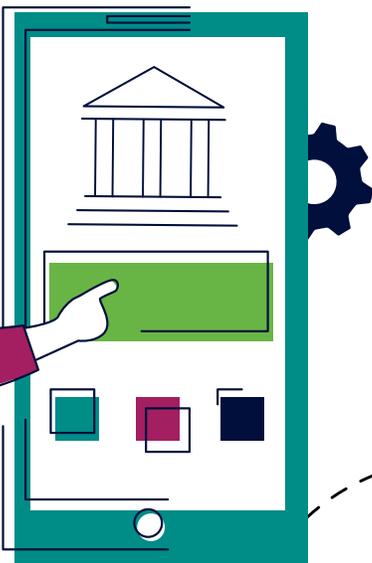
Bolster Europe's Economic Sovereignty

The second objective behind EPI is to establish a new European payment network to compete with the big-name global payment networks that operate in the region, Visa, Mastercard, and UnionPay. Meanwhile other global payment methods, including GooglePay, ApplePay, SamsungPay, AliPay, and WeChat, are expanding their global reach. Merchants and consumers currently depend on these financial giants to make cross-border payments and are therefore beholden to the existing networks' fee structures.

Establish a new European payment network to compete with the big-name global payment networks that operate in the region.



Martina Weimert, chief executive officer of the EPI corporation, said the initiative can provide the European economy with more “sovereignty” and “independence” and ultimately make the EU [“masters of our own destiny.”](#) On its website, the EPI corporation says its scope is both euro and non-euro markets, which indicates the network has global expansion goals.



Why is EPI Becoming a Reality Now?

The concept of EPI has been floated for years. However, three major factors are driving the initiative to become a reality.



Expansion of Immediate Payments

The first factor is the launch of numerous regional instant payment initiatives across the region that enable residents to quickly make account-to-account transfers to other bank members. The debut of these systems has enabled European consumers to move money instantly, sometimes without using a payment card. This instant payment infrastructure provides the foundation that EPI will ultimately rest upon.



Widespread Digitization

Adoption of smartphones and connected device technology also contributes to EPI's launch. As [recently](#) as 2017, 70% of Europe's population had a smartphone. That figure is on track to reach 83% by 2023. This means a growing share of European residents already have access to connected devices that enable them to conduct banking transactions and use financial services on a 24/7 basis.



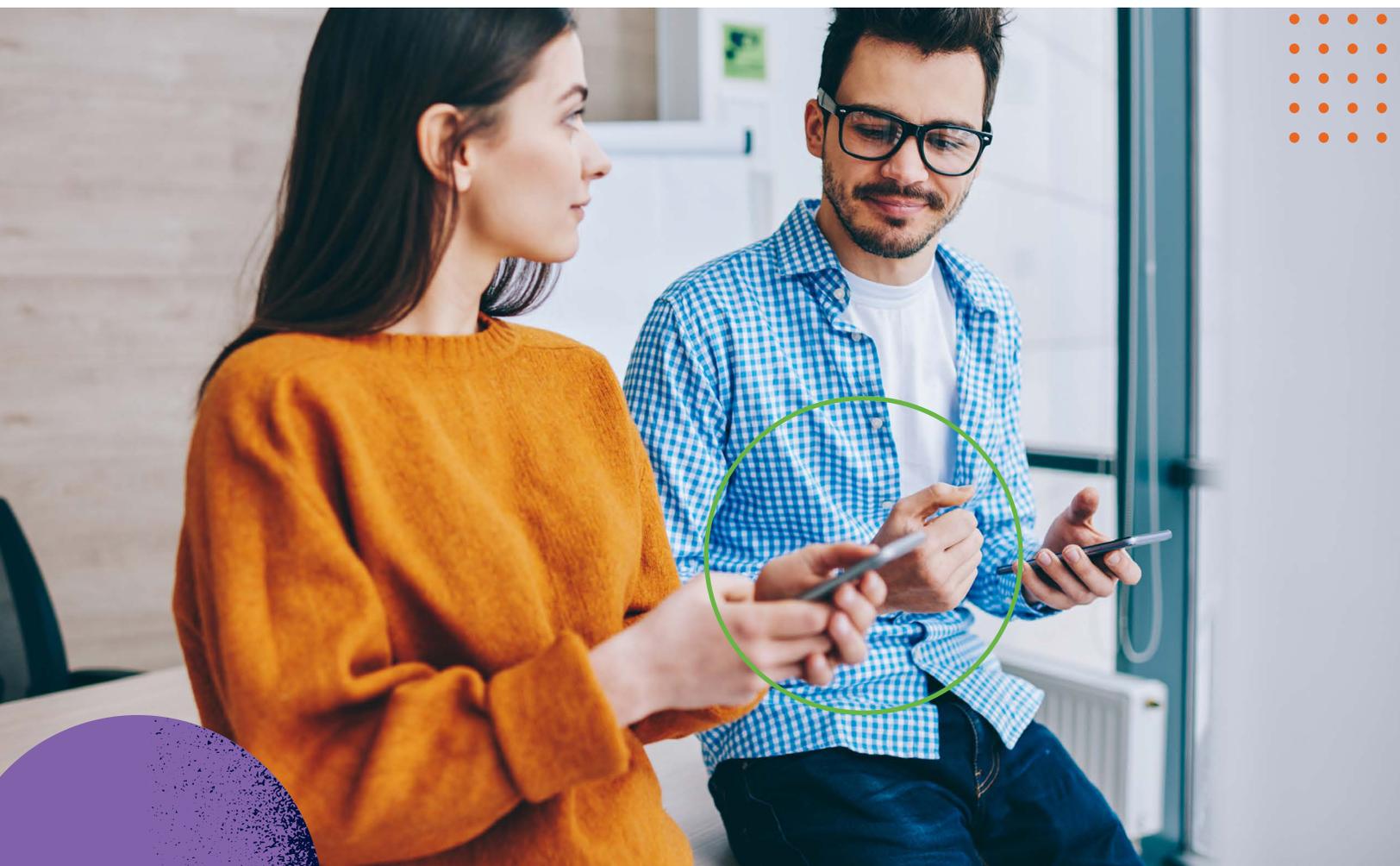
Demographic Changes

Finally, consumers in the millennial and Generation Y age groups are expanding their economic influence in the market. These consumers are accustomed to getting what they want instantly, from streaming movies to ordering rideshares to getting food delivered. They have the same real-time expectations for their banks. If banks can't deliver an experience that is seamless, secure, and instant, they could risk losing these consumers to competitors.

Where EPI Currently Stands

The first stage of EPI's implementation began with the formation of the EPI corporation last in 2020. The initiative will continue to progress in [different stages over the course of several years](#) with the aim of being fully live by 2025.

Early EPI goals are consumer-facing, with the aim of enabling faster, instant payments between individuals. The first EPI goal is to enable person-to-person (P2P) payments by the first half of 2022. The following goal is to launch a digital wallet that runs on SCT Inst capability by the second half of 2022. Connecting these systems to the European payment card ecosystem is the goal for 2024. During these different stages, EPI stakeholders are expected to further develop standards, governance structures, and underlying support technologies. EU banks should prepare to adjust their operational strategies when these new rules and technological infrastructure are released.



Tips to Ensure EPI's Success

Getting EU consumers and merchants to trust the new system is the biggest priority in this endeavor. Here's how EPI can establish trust with EU residents as it builds up its brand.



Make Sure the Network is Fast and Reliable

Even if the system is as secure as Fort Knox, it will be considered useless if it encounters problems or crashes every few weeks or months. EPI must be capable of running on a 24/7/365 basis in order to gain consumers' trust. Relying on proven pan-European payments infrastructures, SCT Inst, and TIPS will help ensure EPI's reliability. Moreover, rapid execution of card and non-card payments is essential to ensure a good consumer experience.



Ensure it's Easy to Use

EPI must provide a seamless payment experience no matter which payment method EU consumers prefer to use. This can include physical credit cards and debit cards, digital wallets, and online banking portals. Consumers will also expect to be able to make P2P transfers seamlessly. At the same time, EPI must easily integrate into European merchants' payment acceptance flow, providing reliability and interoperability across different acceptance platforms like POS, mPOS, softPOS, eCommerce, and wallets without impacting customer experiences.



Keep the System Secure for Customers, Safe from Fraudsters

Once EPI is live, it will need to demonstrate that the network is trustworthy for merchants, banks, and consumers. EPI needs to prevent and detect fraud to provide assurance to consumers that their payments will be protected. To that end, Risk Based Authentication and Strong Customer Authentication will be key factors to success. EPI will also need to incentivize merchants by offering competitive fees and reducing the risk chargebacks. The system will live on proven and secure SEPA, SCT Inst, and TIPS settlement rails that can deliver a secure consumer experience.

Fraudsters will be searching for opportunities to steal money from unsuspecting consumers and merchants once EPI goes live - as they will with any new payment venture. So where will fraudsters strike first? These bad actors are unlikely to target EPI's underlying infrastructure or payment rails. Instead, fraudsters' key points of entry into the system will be through the devices, payment terminals, and websites that consumers and merchants will use to make payments.

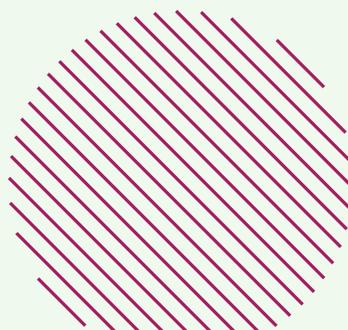
Keeping these points of entry secure from fraudsters will be a top priority for banks when EPI goes live. EPI will need fraud solutions that can both deliver a seamless experience for consumers and merchants and keep fraudsters from exploiting vulnerabilities.



Remember the Commercial Factor

Finally, it's important to understand how the EPI initiative will impact the EU's merchant community. As new payment options become available, merchants will be focused on two key questions. The first question will be, what is the direct charge the merchant can expect? Merchants will be focused on whether lower fees and costs will become available under the initiative.

The second question is, how much more revenue and customer value will they be able to generate under the EPI as new payment options become available? When the new payment options mentioned earlier debut, merchants will be concerned about whether these new options will result in improved revenues - and concerned about their vulnerability to fraud. If merchants are concerned about fraud losses, they will be reluctant to make the new payment option available. In the build up to EPI's launch, merchants will need to be educated on the ISO standards that they will be asked to adopt.



Types of Fraud to Watch For When EPI Debuts

Certain types of fraud are likely to increase following EPI's launch. Identity-related frauds pose high risks once EPI goes live. Once customers have a more seamless ability to make payments with merchants across borders, identity logins will become the key point of compromise. Banks will need to be mindful of different types of fraud that could increase once EPI debuts. This includes:



Synthetic Identity Fraud

This type of fraud, in which fraudsters create [new personas and fake identities to defraud banks](#), is a high risk in the EPI era. Especially if banks are less likely to interact with customers in-person, they could remain unaware that some of their customers are fake identities. Banks will need to quickly and thoroughly verify the identities of parties that request and submit payments on the EPI network.



Social Engineering

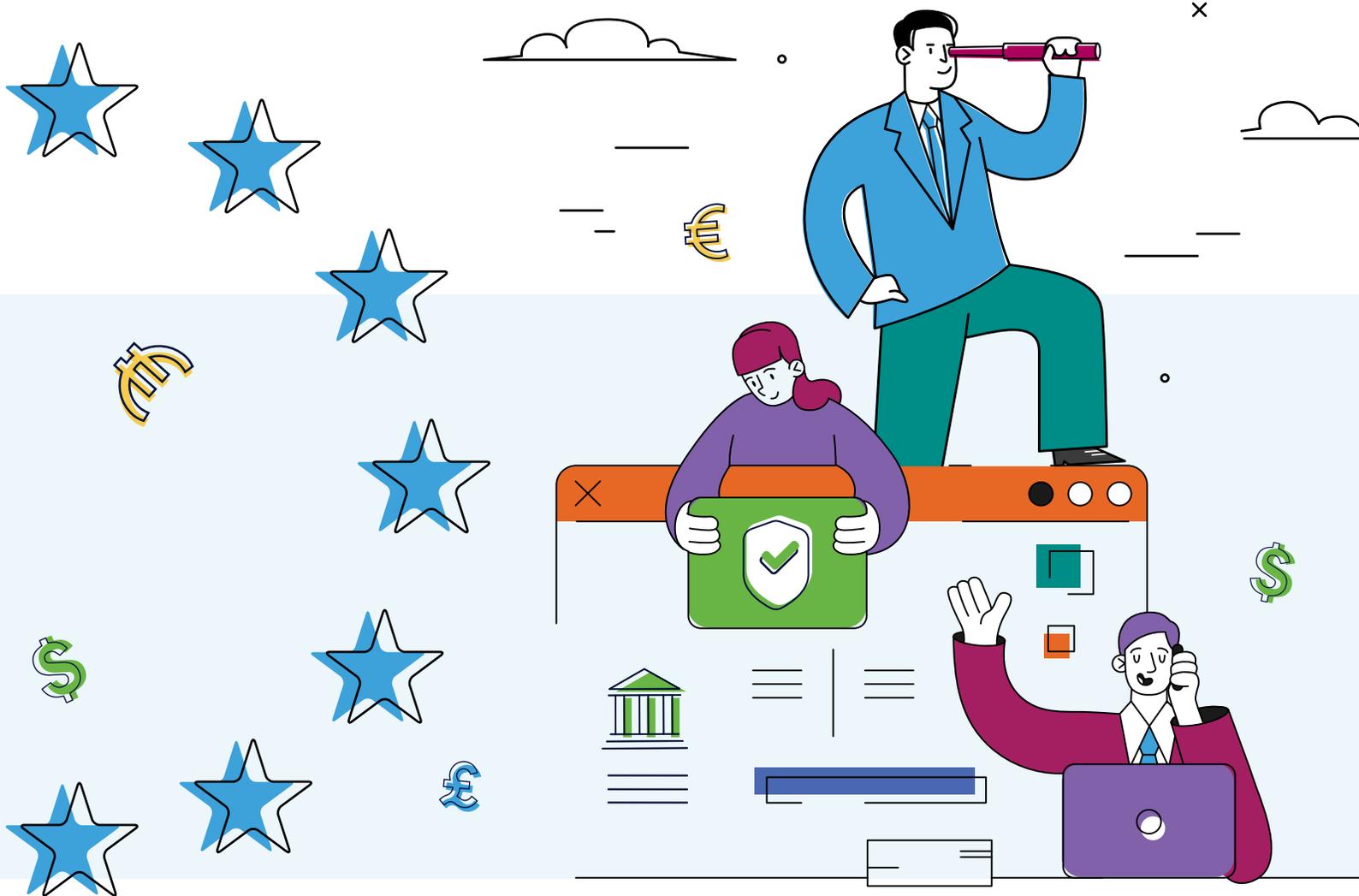
A type of fraud in which fraudsters often impersonate a victim's co-worker or CEO and convince the victim to approve a fake invoice, transfer money to an account controlled by the fraudster, or reveal sensitive information. As money is able to flow faster across borders, banks will need controls in place to stop social engineering fraud before funds are lost for good.



Card-Not-Present Fraud

Card-present fraud is less of a threat thanks to the availability of credit cards and debit cards affixed with EMV chips. As a result, fraudsters shifted their attention to card-not-present (CNP) fraud which saw a [650% increase](#) during the pandemic. One of the goals of EPI is to encourage consumers to switch from cash - a very popular payment method in the EU - to more modern payment options. The unintended effect of this could be another surge in CNP fraud.

The European Payments Initiative is an ambitious initiative that aims to bring unity to the region's different payment schemes and fortify the EU's political and financial sovereignty. But with any new payment initiative, fraudsters will be waiting patiently to exploit any and all vulnerabilities they can find.



To put it mildly, establishing a new regional payment network is no easy task. As Europe heads for a more unified payments landscape and step up competition with existing payment networks, banks will need to ensure that customers and merchants get an experience that is as seamless and secure as they expected.





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