

Summary of the third meeting of the Irish Retail Payments Forum

29 April 2019

This note summarises the main conclusions of the third meeting of the Irish Retail Payments Forum (IRPF), which was hosted by the Central Bank of Ireland (Central Bank) on 29th April 2019.

Approval of the agenda

The Chair opened the meeting by welcoming all members to the third meeting of this group. He recalled the purpose of the IRPF - to provide a forum where payment services providers and payment services users have an opportunity to meet and engage in an open and constructive dialogue in relation to Irish retail payment services, to provide a space for those involved in the payments ecosystem to have a conversation.

The Chair recalled that at the previous IRPF meeting the Banking and Payments Federation Ireland's (BPMFI) representative had provided a high level presentation on the various elements of PSD2, including the requirement of Strong Customer Authentication (SCA). In this context, he referenced agenda item no. 4 of this meeting's agenda - VISA's analysis of *national market readiness for SCA* - and noted that at this time there remains a lack a clarity around what constitutes SCA. He stated that while it is important to facilitate a discussion around SCA, given the significance of the topic, (this is the purpose of the forum) he wanted to be clear that the content and assumptions contained in VISA's analysis around what constitutes SCA, in particular the elements of the 3D Secure solution, are not endorsed in any way by the Bank.

The members affirmed that there was no expectation that the Bank should endorse the content of VISA's analysis and that it is crucial to raise market awareness of SCA as the deadline of 14 September 2019 is fast approaching.

VISA confirmed that the sole purpose of its analysis was to present its observations on the state of readiness for SCA amongst merchants.

National Market readiness for SCA

VISA presented the findings of their analysis of national market readiness for SCA. SCA will be a whole industry shift that requires not just the issuers and acquirers to have the necessary technology and systems in place, but also merchants. There are many challenges still to overcome, which include:

1. The roll-out of the relevant technology

VISA estimated that one third of VISA's e-commerce merchants in the EU do not currently have the required technology in place. This includes 74% of all small e-commerce merchants acquired in the UK and Ireland. VISA is concerned with these figures, as these merchants are

primarily small ‘corner shops’ that significantly rely on their custom, and that these merchants could be at a disadvantage to larger retailers.

2. Stabilising new technology

In addition to those merchants that will not have the required technology in place before 14 September 2018, merchants who have recently implemented, or will soon implement, new systems will have a limited window to bed in the new technology and work through any teething issues that they may experience.

3. Flagging transactions

VISA highlighted the importance of ensuring that merchant initiated transactions (transactions where the cardholder is not present, e.g. a hotel charging for a reservation when the customer does not turn up), which fall out of scope of SCA, are appropriately flagged to issuers through coding of the transaction. This is particularly important for merchants whose business models rely on these types of transactions. This an issue that has been highlighted by acquirers.

4. Contactless Counters

VISA estimates that in Ireland, only 30% of contactless terminals are ready for SCA. Some members questioned this figure based on their own analysis, which indicated that the figure was much higher.

Members questioned whether it is likely that the SCA deadline of 14 September 2019 will be extended. It was noted that other markets have requested extensions ranging from 6-12 months up to 3 years. Relevant members indicated that they have not been informed of any extension period and that they are working towards the 14 September deadline. Member questioned whether Ireland would request an extension and what the procedure is in this regard. The Bank confirmed that this issue was currently under discussion at the relevant banking fora.

Some members raised concerns about the possibility of different extension periods being granted in different jurisdictions, which would result in different rules being applied to transactions depending on the country in which they were conducted. They noted that this would be a complex issue to manage and that if any extension is granted it should be the same across all jurisdictions.

Members noted that there is a huge amount of work going into raising SCA awareness and highlighted the risks of online retailers not implementing the necessary technology (e.g. 3D Secure) to support the application of SCA, in that transactions will be declined as Issuing banks will be obligated to do so under PSD2. One member referred to the recently published Indecon report, which suggests that around 30% of Irish enterprises are selling online which is higher than in other European countries, and noted the impact on Ireland from this issue may be more significant than in other jurisdictions.

The Chair closed the item by thanking the members for their candid views and contributions, noting the frustration of those involved with the lack of clarity on this issue and committing to feed this back to relevant areas in the Bank.

Issues facing independent convenience retailers and supermarket owners

The Retail Grocery Dairy & Allied Trades Association (RGDATA) member presented on issues facing its members, which focused primarily on the cost of implementing SCA. RGDATA wanted to raise awareness that SCA is perceived as another expense that smaller merchants would struggle to bear. She explained that any additional costs that cannot be reflected in the merchant's margin could put their business in jeopardy.

The member noted that many of RGDATA's smallest members, particularly local convenience stores, do not have the facility to accept card and mobile payments and most do not have an online presence. Therefore, there is a concern amongst its members that smaller merchants, whose businesses are threatened by larger e-commerce retailer, would essentially be bearing the cost of implementing SCA for these retailers through, for example, increased bank charges.

The member expressed RGDATA's concern that SCA was being promoted as a free service to consumers and businesses but that in reality the cost of implementing the service would be borne indirectly by its members. RGDATA expressed the need for transparency in this regard and sought a commitment from the banks that merchants would not be imposed upon with significant costs for the implementation of SCA.

BPFI, as representative body for the Irish banking sector, stated that the implementation of SCA and APIs to meet PSD2 obligations would not result in an uplift in fees and charges.

Regarding bank charges, the Bank reiterated that some protection is afforded by the requirement of commercial banks to notify the Central Bank of increases in bank charges, under Section 149A of the Consumer Credit Act 1995 (<https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/bureaux-de-change/gns-4-4-2-2-charge-approval-process.pdf?sfvrsn=4>).

It was acknowledged that PSD2 has not received much attention to date due to conflicts with Brexit preparation.

PSD2 Timeline

The Banking and Payments Federation Ireland presented its timeline for the implementation of PSD2, assuming that there will be no extension period provided for SCA. There are five key milestones:

1. **14 March 2019:** API Sandbox Launch;
2. **14 June 2019:** API's go live;
3. **June 2019:** Launch of phase 1 of BPFI's PSD2 awareness campaign. Channels used will include member websites, social media and radio. The intent of the campaign is to

- provide end users with clear and simple messaging regarding the two main components of the full rollout of PSD2: (i) Strong Customer Authentication and (ii) Open Banking;
4. **August 2019:** Launch of phase 2 of BPFII's awareness campaign; and
 5. **14 September 2019:** PSD2 readiness.

The BPFII reiterated the importance for online/e-Commerce retailers to ensure they are ready for SCA.

Brexit

The Chair invited the members to raise any BREXIT related concerns they had that could potentially have an impact on the Irish retail payments market. He encouraged all members to remain vigilant with respect to risks that could quickly develop, citing the recent issue concerning UK PSPs continued participation in the SEPA scheme.

The BPFII highlighted an issue regarding a EU Regulation that requires an additional field to be included on payment messages originating from a third country, e.g. the UK (post-BREXIT). Irish PSPs are dependent on UK PSPs including the additional information on the payment message otherwise; it is likely that the incoming payment will be rejected. The BPFII are engaging with the UK Finance (industry body) to ensure that a plan is in place to mitigate this issue.

AOB

Some members thought that the group would benefit from the participation of some of the larger payment service providers in the market. The Chair committed that the Bank will reach out to the relevant PSPs in this regard.

List of Attendees of the first meeting of the Irish Retail Payments Forum (IRPF) on 29 April 2019

Chair: Will Molloy, Head of Payments & Securities Settlement (PSS)

Central Bank of Ireland
Banking & Payments Federation Ireland (BPMI)
Department of Finance
Fintech & Payments Association of Ireland (FPAI)
Irish Business and Employers Confederation (IBEC)
Consumer Association of Ireland
Irish Small and Medium Enterprises Association (ISME)
MasterCard
National Transport Authority (NTA)
Retail Grocery, Dairy & Allied Trades Association (RGDATA)
VISA
Irish League of Credit Unions (ILCU)
Credit Union Development Association (CUDA)
Payzone Ireland
AIB Merchant Services