Payments Tomorrow Conference

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# Innovation, competition and security: how regulation continues to shape the EU payments market



## Speech by François-Louis Michaud

Good afternoon, and thank you for the invitation to join you here in Paris for this new edition of the Payments Tomorrow Conference.

The European payments market stands at a pivotal juncture – the wide range of topics you are addressing today illustrates it very well. Over the past decade, the market has become more open and competitive, driven by the innovation and efforts of industry stakeholders but also by EU legislation. Regulation contributed directly to this direction of travel in the EU with the two successive payment services directives and all the related work:

- the first Payment Services Directive (PSD1), which entered into force in 2009, created a legal basis for non-bank providers (payment institutions and e-money institutions) to provide payment services in the EU, introducing new competitors for the incumbent banks at the time, and opening up opportunities for customers.

- the second Payment Services Directive (PSD2), which entered into force in 2018, created a legal basis for open banking, and required incumbent providers to share data with new account information service (AIS) and payment initiation service (PIS) providers, for free, and based on the customers' consent.

So, on the whole, these two important pieces of legislation have been game changers in the payment space within the European Union. At the current juncture, new regulations are also in the making which could have a profound impact on customers' choices and behaviours, namely a third payment services directive, a payment services regulation and a framework for Financial Data Access (FIDA) which would engage in the direction of open finance.

Innovation is transforming business models, competition is intensifying further, and consumers expect payments to be faster, more convenient, and more secure than ever before. At the same time, new risks, such as the rise in social-engineering fraud and increasingly sophisticated attack techniques, demand constant vigilance from the users and call for adequate mitigation measures, which may -or may not – be adequately provided. As a result, there is a need for regulatory adjustments but it is also critical that regulation strikes a careful balance: on the one hand, it needs to ensure that innovation continues to flourish and competition remains lively while on the other hand it is expected to safeguard security and resilience.

In my remarks today, I will, therefore, focus on three aspects: firstly, the impact of PSD2, that is the progress achieved, but also remaining challenges; secondly, the recent and forthcoming legislative changes which will shape the next phase of the EU payments market; and, finally, the role of the EBA in ensuring that the legislation's objectives are actually delivered in real life.

## PSD2: Its objectives and eventual outcomes

When PSD2 entered into force in 2018, it broke new ground in two important ways. First, it was the first EU financial services directive to state explicit pro-innovation and pro-competition objectives. Second, it embedded detailed security requirements directly in EU law, most notably strong customer authentication (SCA), rather than continuing the previous approach of leaving fraud controls entirely to the industry. The overarching intent was clear: it was to foster innovation, enable competition, create a single EU payments market, but also to enhance security and protect consumers, therefore making payments more secure and convenient, and all of that in a technology-neutral way so as not to curtail innovation.

Seven years on, the impact is visible, and it is positive. More than 350 non-bank entities have been authorised to provide payment initiation and account information services, demonstrating the success of opening the market to new players. Innovation has accelerated across the ecosystem, with new solutions such as account-to-account payments at checkout based on instant credit transfers rather than card rails; payment services from new entrants delivering a more seamless customer experience; personal finance management tools powered by AIS; and credit-risk and affordability checks using AIS data for faster, more accurate decisions.

With regard to the impact of SCA, this regulatory requirement has played a decisive role in reducing payment fraud: for example, fraud data from the most recent period available, the first half of 2024, shows that card payments authenticated with SCA recorded substantially lower fraud rates than those without it. For card payments acquired outside the EU, where SCA is not legally required, fraud shares were up to 10 times higher than for SCA-authenticated transactions. Even within the EU, non-SCA card payments showed fraud rates up to three times higher compared to card payments with SCA. These figures illustrate that SCA has delivered on its primary objective of reducing fraud.

But challenges remain. Social-engineering fraud is rising, and SCA alone cannot fully address it. Also, regarding Open Banking, barriers to third-party access persist in some cases (for example, API performance and user-journey frictions) and should be removed. Furthermore, the lack of reliable EU-level data on the use of AIS and PIS makes it difficult to measure the true uptake of these new services.

These observations have given rise to the need for legislative enhancements in the forthcoming PSD3 and PSR. Together they focus on strengthening security, improving data sharing and competition, and enhancing customer protection. So, please allow me to now focus on the immediate and long-term developments in EU payment legislation.

## Recent and forthcoming developments in EU payments legislation

The Instant Payments Regulation (IPR), which started to apply in April 2025 and is now in the implementation phase, is already setting important changes in motion. Key changes introduced include:

- Enhanced competition, by facilitating access for non-bank payment service providers to payment systems;
- Stronger fraud prevention, through the forthcoming obligation, effective from October 2025, for providers to offer, free of charge, a service that verifies whether the name and IBAN of the payee match before the transfer is authorised; and

- Greater convenience, by requiring providers that offer conventional credit transfers in euro to also make instant credit transfers available, at no higher cost than conventional credit transfers.

Looking ahead, the new Payment Services Directive (PSD3) and the Payment Services Regulation (PSR), currently being discussed by the European Council, Parliament and Commission in the so-called trialogue phase, are expected to introduce further important changes. It is encouraging to see that many of the EBA's recommendations from its June 2022 advice to the European Commission have been reflected in these legislative proposals. Key elements include:

- Strengthening payment security, through enhanced transaction monitoring, the possibility for providers to exchange fraud data, new refund rights for consumers in cases of bank-impersonation fraud, and greater responsibility to combat fraud for all actors in the payment chain, including electronic communication service providers;
- Improving the functioning of open banking;
- Addressing de-risking of payment institutions by banks, by ensuring that payment institutions are not denied access to essential banking services without due justification; and
- Enhancing enforcement and consistency, by replacing much of PSD2 with a directly applicable regulation and enhancing supervisory enforcement powers.

These reforms come as the payments market undergoes a broader transformation. Market initiatives such as the European Payments Initiative (EPI) with its *Wero* wallet, or the European Payments Alliance in Southern Europe, as well as the Digital Euro project, aim to strengthen EU autonomy and reduce reliance on non-EU providers in the area of payments.

In parallel, the growing use of crypto-assets, including electronic money tokens which are assimilated to electronic money, and new business models highlights the need for legal clarity regarding the interaction between EU payments legislation and the Markets in Crypto-Assets Regulation (MiCA). Future legislation must remain adaptable to emerging technologies while ensuring legal certainty and robust consumer protection. This brings me to how the EBA is contributing.

## The EBA's role: from implementation to proactive support

Over the past decade, the EBA has supported the implementation of PSD2 through 12 Technical Standards and Guidelines, 10 Opinions, and through responses to more than 300 questions received from external stakeholders. This allowed to clarify many key aspects of the directive and to promote a consistent application of the regulatory framework across EU Member States.

In 2025, four EBA initiatives stand out:

- In February, we published Implementing Technical Standards on monitoring and reporting of instant-payment fees, which the law prescribes must not be higher than for conventional credit transfers.
- In June, we published a No-Action Letter clarifying the interplay between PSD2 and MiCA. It included recommendations to the EU co-legislators on how to improve these Level-1 texts regarding payments with e-money tokens and provided clarity to market participants on the application of existing rules pending the revision of PSD2.
- We are currently finalising a Memorandum of Understanding among the EBA, the ECB, national competent authorities designated under PSD2, and national central banks, establishing a framework for coordination between these different public authorities, with a view to contributing to the competition-enhancing objective of the Instant Payments Regulation that allows non-bank PSPs to access payment systems; and
- By year-end, we plan to publish a joint report with the ECB on Payment Fraud, which will offer the most comprehensive view so far on fraud in general, and on the effectiveness of SCA in particular. This may therefore inform potential future policy initiatives.

Looking ahead, and judging from the latest stages of the negotiations, the EBA is expected to receive a very large number of mandates and tasks related to the implementation of the PSD3, PSR, and FIDA. The mandates and tasks for the EBA cover topics such as authorisation and prudential requirements for payment institutions, regulatory perimeter, security requirements and consumer protection measures for all payment service providers, open banking, and fraud reporting.

While we fully understand the rationale for - and expected benefits from - those missions for the EBA and we stand ready to support the EU institutions, we are also advising them on possible options to streamline the framework being mindful of the EU simplification agenda and of the need to reduce the compliance burden for financial firms and citizen in general.

Finally, it will remain a priority for the EBA to contribute to a framework that remains adaptable to emerging technologies, while preserving legal certainty and robust consumer protection, particularly in light of rapid innovation.

## Concluding thoughts

With this, let me share a few conclusion thoughts. The scale and pace of change in the EU payments market, and the importance of this area for EU citizens calls for some regulation and this regulation needs to remain fit for purpose. Against that background, properly regulating requires an approach that goes beyond fulfilling legislative mandates one after the other. It requires to take a holistic and forward-looking angle.

Going forward, the EBA is, therefore, planning to intensify its proactive engagement with industry to early identify the best possible ways to adjust the regulatory framework and to avoid an undesirable compliance burden. This should be done maintaining high standards of security, consumer protection, effective supervision, fair market access, and support for innovation, and monitor whether the rules in place are delivering on their core objectives of security, competition, innovation, and convenience.

We look forward to continuing the journey with you and all stakeholders, and contribute to an efficient payments market in Europe, striking the right balance between innovative solutions, financial stability and consumer protection.

Thank you for your attention.