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EBF's views on the evaluation of the Payment Accounts Directive

The European Banking Federation is the voice of the European banking sector, uniting 32 national banking associations in Europe that together represent some 3,500 banks – large and small, wholesale and retail, local and international – employing about two million people.

General remarks

The EBF would like to take this opportunity to provide its insight into the current evaluation of the Payment Accounts Directive. More specifically:

- ❖ We acknowledge that the Directive represents an important and well-known tool supporting harmonising consumer protection rules on payment accounts within the Union. We also note that the recent transposition deadline of the Directive means that its complete impact and capabilities have still to fully unfold and it is **impossible, at this point in time, to have a full assessment of the impact of the Directive in the market**. For example, the delivery deadline for the annual 'Statement of Fees' was 31st October 2019. We therefore strongly encourage that monitoring the impact on both consumer and market trends be continued to ensure that the Directive has been in place for sufficient time to identify potential impacts. Only if any needs emerge, then changes to the text can be proposed. Against this background we recall that regulatory stability is valued by both customers and market participants and we encourage legislators to grant it.
- ❖ Several consumers' satisfaction surveys undertaken in different member states show that **consumers are well aware of and very satisfied with the switching services** offered by their providers. For example, in a member state a 2019 study¹ showed that awareness and satisfaction levels for the Current Account Switching Service remained consistently high at 79% and 92% respectively. A high level of consumers' satisfaction with the switching services should be the target of policy actions, and not a high level of switching per se, the latter would result in providers not being able to fulfil customers' expectations. As a result, we caution against looking at the level of switching as a target in itself and advise introducing further initiatives, that would not be necessarily used by customers. Implementing such measures would increase the costs of services without providing added value to customers who are not interested in switching, or to those who already use such a service (and are happy about it according to surveys).

¹ <https://www.wearepay.uk/wp-content/uploads/2019/07/Q2-CASS-Dashboard-2019.pdf>

- ❖ In line with the above, we also strongly recommend refraining from introducing IBAN-portability requirements without a detailed cost-benefit analysis clearly showing that the benefits for consumers outweigh the impact of a measure that **would heavily damage the EU payment system.**

More detailed views

High consumer satisfaction on switching services prove that the system functions well and there is no evidence justifying changes to it

The Payment Accounts Directive (PAD) has now been transposed in all Member States and EU consumers have become acquainted with the rights and services included therein.

PAD ensures that switching services are provided to consumers who open or hold a payment account located in the territory of a member state. The EBF believes that the framework put in place by the Directive provides both consumers and providers with a safe, reliable and fast scheme to switch services when requested. For example, in the UK a 2019 study² showed that awareness and satisfaction level for the Current Account Switching Service remained consistently high at 79% and 92% respectively. A different stock-taking exercise performed in 2018 in another member state looking at the overall satisfaction of customers of the switching services, showed that 92% of retail users would recommend it and 85% of retail users declared being satisfied by the service³.

With regards to the reported level of switching, we note that customers are informed and well aware of the service, therefore the actual level of switching can be considered as the natural level at which the market is settling. For example, a study conducted in Ireland, showed that in the second half of 2018 the number of consumers switching was the lowest observed in the reporting to date⁴. High level of consumer satisfaction with the services provided by home banks is the main reason for explaining the current level of switching services. In Denmark, a customer's loyalty survey showed that more than 70% of consumers did not even consider changing their bank.

EBF views

We can confidently say that, overall, customers are well informed about the possibilities offered by the switching services and those that benefitted from the services are happy with them. We consider that good customer results should not be measured in terms of increased levels of switching, but in terms of customer satisfaction with their account, or with the switching service, combined with an awareness of and confidence in its availability.

In light of which, we believe that regulatory stability should be preferred for the time being to ensure that the newly introduced services be even more widely known by customers before any changes are considered. Such changes must be justified by shortcomings in the legislation that are not linked to national implementations but affect the whole EU market and are supported by a clear cost/benefit analysis.

The tendency towards multibanking limits the interest in switching

In terms of market trends, we also see strong indicators in the increasing tendency for customers to favour the so-called 'multibanking' approach (i.e. holding multiple accounts in different institutions) instead of switching. For example, the Swedish Quality Index Bank Seed 2018⁵

² <https://www.wearepay.uk/wp-content/uploads/2019/07/Q2-CASS-Dashboard-2019.pdf>

³ CCFS, *Réforme de la mobilité bancaire: Le Bilan*, June 2018, p. 4.

⁴ <https://www.centralbank.ie/docs/default-source/regulation/consumer-protection/compliance-monitoring/reviews-and-research/consumer-protection-bulletin---current-accounts---june-2019.pdf?sfvrsn=4>. It is also worth noting that the spike in numbers using the switching process was in 2013/2014, coinciding with the withdrawal of some current account providers from the market.

⁵ <http://www.kvalitetsindex.se/wp-content/uploads/2018/10/SKI-Bankbranschen-2018.pdf>

showed that customers tend not to change banks, but rather acquire new ones. More than half of the customers have at least one other banking relationship in addition to their main bank. Of the banks' new customers, 7 out of 10 customers become sub-customers and retain their old bank.

Furthermore, the implementation of PSD2 and the wider introduction of account aggregator services, shows there is a growing tendency towards multibanking. While numbers vary across member states, we see there is a growing customer preference for keeping more than one bank account, with a consolidated view on all of them, rather than having one single account and switching to new providers.

EBF views

Given the consumers' awareness and satisfaction levels of switching services, together with the increased tendency towards multibanking, we advise waiting until the impact of PSD2 has fully unfolded and markets have adjusted to the changes before undertaking any action that may undermine the scope of PSD2 initiatives.

IBAN-portability, an idea that would heavily damage the payment system

It has been argued that the introduction of IBAN-portability as part of the switching service may be a useful tool to facilitate and increase switching of banking accounts. The EBF questions the need for such a measure given the high percentage of consumer satisfaction with the switching services, the high level of competition in the payment markets, and the overall customer satisfaction with the services provided (as above).

Against this background, there is no evidence that IBAN-portability would bring additional benefits to customers. For example, links to associated financial services like savings accounts and credit facilities cannot be switched smoothly, even if the option of IBAN-portability would be implemented.

It must be noted that the codes and numbers related to IBAN identify the country of origin of the account, the bank of origin and the account holder. The information within IBAN are crucial for bank activities such as payment transfer and its routing, reporting, balance of payment, AML and CTF screening, among others. IBAN-portability between banks or even countries would have disruptive implication for both the EU payment system (and in particular the ISO-based SEPA payment system) and the current international ISO standard. It is worth noting that the IBAN system is the base for the current international ISO standards 13161-1:2007, also widely used in the Middle East, Africa and Central and South America, which must include all routing information. Account number portability would require a new European payment system that would not be compliant with the international standard.

More specifically, given that an IBAN's bank code would no longer necessarily refer to the actual bank involved, processing payments to and from a Member State bank account numbers would involve consultation of an EU common database containing the list of all "switched" account numbers. Each European bank as a participant of the single euro payments area (SEPA) and each payment (including so called one leg payments) in the EU would need to perform that validation. A fast, secure and clear identification and traceability of the account holder, together with the country and bank of origin, are also crucial aspects for both service providers and national authorities in order to guarantee that AML requirements are fulfilled, and financial stability ensured.

The implementation of the Union-wide portability of payment account numbers would impose an unjustified burden for both PSPs and all payment users. Complete conversion of customer databases at PSPs, all other commercial undertakings and public administrations, replacement of all payment cards, complete upheaval of payments' routing and mandatory reporting (AML and CTF) system, alteration of customer letterheads containing account numbers, are only a few examples of the implication of IBAN-portability. Moreover, the current framework of central bank payment statistics in Europe would be impacted. Currently, the ECB is reviewing its Payment

Statistics Regulation and setting all the reporting requirements and definitions. A completely new analysis would need to be performed.

A comprehensive, overarching and detailed cost-benefit analysis should be prepared before any debate on IBAN-portability is put forward⁶. Also, any analysis should take into account that open APIs and other innovation tools have the potential to change, fundamentally, customer experience in banking and reduce the role of bank account numbers.

EBF Views

It has been claimed that IBAN-portability can be compared with telephone number portability. Such a comparison is not accurate given that:

- the IBAN number has an impact on a greater number of information systems, managed by different institutions, than the telephone number;
- the role of the bank account number and the telephone number (routing calls number vs routing transactions) are fundamentally different;
- the system used is completely different, with the telephone number being a two-floor system (i.e. the number of the subscriber is not the 'phone number but another ID known by the company, similar to what happens to websites where the identification code is the IP address of a website and not its name), while the IBAN is a one-floor system (i.e. the number identifies the actual IBAN);
- the regulatory role of the IBAN (both as an element mentioned in regulations and a cornerstone on which a number of reporting requirements are based) is not comparable to the role of the telephone number.

Indeed, in terms of consequences and impact on the system, account number portability should be compared to home address portability. The portability of home addresses, without a clear and recognised EU scheme for traceability, would make it very difficult, if not impossible, for all public services (national administration, postal services etc.), to detect where people live, or, to where they may have moved, leading to significant security issues that might impede people from exercising their own rights. Therefore, we question whether such a demanding investigation would be worth the problems it would cause. The more so, in view of the likely, limited benefit that users would gain from IBAN-portability given that customers often do not know their IBAN number, yet alone remembering it.

AML, an important tool for financial stability that should not be underestimated

When a consumer applies for a basic payment account under PAD, questions have arisen over whether some tensions may occur between the Payment Accounts Directive's for consumers to open a basic payment account, and, the requirements on the prevention of money laundering and the countering of terrorist financing, as laid down in the AML Directives.

Potential (though rare) inconsistencies have also been recognised by the European Banking Authority (EBA), which published an Opinion clarifying how credit and financial institutions can strike the right balance between providing asylum seekers from higher-risk third countries with access to financial products and services while also complying with EU Anti-Money Laundering and Counter-Terrorist Financing (AML/CFT) requirements. More specifically, the EBA's opinion says: "there will be relatively few cases where it will be necessary for a credit or financial institution to decline a business relationship with an asylum seeker from a higher-risk third country or territory on ML/TF grounds. Money laundering / Terrorist financing (ML/TF) risks can, in most cases, be managed effectively by offering a more limited range of services and/or setting

⁶ In 2013 the an European Commission study (LINK) estimated that the European banking industry would be required to invest around 14.7 billion euros only for converting the technical systems. In 2012 a national banking association made an estimation according to which IBAN-portability would have generated costs around 1 billion Euro for the member state. As the number of accounts has increased considerably since 2012, as well as banking infrastructure including internet banking services, apps and other payment services, the national association assumes that the foreseeable costs for IBAN-portability has increased considerably since 2012.

up stricter monitoring controls, conducive to early intervention in the event of suspicious movement. The PAD is clear that the right to open and use a basic payment account applies only to the extent that credit institutions can comply with their AML/CFT obligations.

EBF views

The EBF is of the opinion that ensuring full compliance with AML requirements is a crucial aspect in guaranteeing financial stability and consumer protection and should not be undermined. Opening a basic payment account in a member state, without fully complying with AML requirements, might lead to a negative impact on the entire EU financial market. This, in turn, could impinge upon financial stability and integrity, together with consumer protection. Consequently, each financial institution subject to AML/CFT requirements will, according to the principle of the 4th AML/CFT Directive, apply a risk-based approach regarding the onboarding of clients. We also notice that in some member states, service providers are not required to justify the refusal of clients from opening a bank account. As a result, it is difficult to assess how frequently refusals occur and whether there is critical mass at EU level to justify further actions. Payment Service Providers (PSPs) must remain free to refuse costumers when they do not comply with security requirements.

Finally, should problems of inconsistency or doubts on the application of the two directives arise, a concerted clarification provided by the supervisory authorities or the EBA would suffice to clarify each case, without necessarily requiring a review of the Directive.

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About the EBF

The European Banking Federation is the voice of the European banking sector, bringing together 32 national banking associations in Europe that together represent a significant majority of all banking assets in Europe, with 3,500 banks - large and small, wholesale and retail, local and international - while employing approximately two million people. EBF members represent banks that make available loans to the European economy in excess of €20 trillion and that reliably handle more than 400 million payment transactions per day. Launched in 1960, the EBF is committed to a single market for financial services in the European Union and to supporting policies that foster economic growth.