

Market Trends and Innovations in the Belgian Payments Landscape



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ABSTRACT

The last year may be marked as a tipping point for retail payments in Belgium and in Europe with the implementation of the Payment Services Directive (PSD2) and the wide range of innovative initiatives sparking off in the market. The changes these trends are inducing in business models, in combination with the emergence of instant payments, stablecoin systems and technological innovations, will increasingly shape the sector in the years ahead. Against this background of structural and strategic challenges, both public authorities and market actors need to carefully set out their future course. This article aims to facilitate this reflection by providing an overview of the key trends and innovations currently driving the transformation of the Belgian and European payments landscape.

1. Market Trends and Innovations within the payments market

In recent years, the financial sector has become increasingly digitalised with the introduction of a wide range of new applications, processes and products. Driven by technological innovations and changing consumer preferences, this digital transformation is both characterized by the entry on the market of new, disruptive service providers and initiatives launched by existing market players aiming to improve their organisation, service provision and product range. For example, two technological innovations, Near Field Communication (NFC) and Quick response Code (QR) show how the demand side (customer behaviour) and supply side for payment services can rapidly changing. The use of quick response (QR) code technology may help to decrease merchants' reliance on more expensive card-based acceptance models and may change payment habits for other types of payments, such as invoices, with a minimal intervention of the payer (who is only scanning a QR code with his mobile device). NFC makes card payments even more convenient (and faster) than they already were. At the checkout of the point of sale, card holders only have to tap the card against a terminal as no PIN has to be keyed in. The following section provides an overview of several key trends underlying this transformation, such as the interaction between *"Open Banking"* and emerging business models, technological changes introduced within the cross-border payments landscape, the observed rise of instant payments and the appearance of stablecoin systems.

1. Open Banking: Trends in Business Models

The strong development towards the digitisation of the payments market is, next to general technological evolutions such as the ones mentioned above, driven to a large extent by the Second European Payment Services Directive (PSD2)¹. This directive, which has been transposed into Belgian law by the Law of 11 March 2018, obliges the account holding payment service providers, banks, payment institutions (PIs) and electronic money institutions (ELMIs), to open their payment account infrastructure to other entities authorized to provide these services under PSD2. The concept, coined *'Open Banking'*, thereby allows new market actors, so called *'Third Party Providers' (TPPs)*, to provide payment services on payment accounts not held by themselves.

¹ Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) no 1093/2010, and repealing directive 2007/64/EC, OJ. 23 December 2015, L. 337, 35-127.

The regulatory framework has singled out two distinct activities for entities using the ‘*Open Banking*’ access, that of initiating payments and providing account information, as regulated services subject to an authorization from a national competent authority (in Belgium the National Bank of Belgium or ‘*the Bank*’)². Consequently, an uptake has been observed within Belgium in terms of firms, both start-ups and incumbents, applying for the required authorization with the aim to include this new service offering in their business model. To provide a point of reference, out of the eight new payment institution- and electronic money institution authorizations issued by the Bank in 2019, four related to at least one of these new services (see *Graph 1*). Banks, as incumbents in the payment services market, are obviously allowed by law to continue to offer initiation of payments and delivering account information which are core services which they offer since ever since they offer financial services to the public.

Within this context, the Bank has identified the following three key business models of service providers:

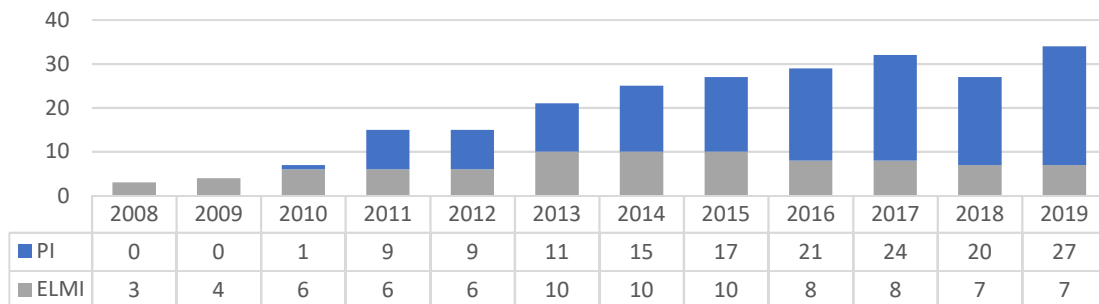
- Specialised payment service providers targeting small and medium-sized enterprises (SMEs);
- Specialised payment service providers aiming to automate, optimise and enrich payment data processing; and
- A changing offer of the incumbent banking sector to also provide new services by taking up a role of third-party provider and to access accounts of their competitors.

Regarding the first trend, the Bank observed that a growing number of non-bank payment service providers, i.e. payment institutions and electronic money institutions, are trying to develop a competitive and personalised service for SMEs. New service providers argue that this evolution is mainly driven by the fact that SMEs often require specific, individual payment solutions, which have only to a limited extent been provided by the market up to today.

The second observed evolution relates to the increased “*data-centricity*” in the service offering of non-bank payment service providers. Most observed business models revolve around the aggregation of account balances and the provision of digitally tailored and targeted financial services for SMEs, such as financial planning, budgeting and management. In this context, several actors also focus on the automation of certain business processes, such as those related to cash flow management and accounting, in which account information is integrated.

² See National Bank of Belgium (NBB), Financial Market Infrastructures and Payment Services Report, June 2019.

Graph 1: Evolution of payment institutions and electronic money institutions authorized in Belgium



In parallel to the emergence of these new market actors, existing incumbents also focus on integrating these new services, i.e. account information and payment initiation, within their existing product offering. For example, certain Belgian banks recently launched the possibility to consult payment accounts held with other Belgian banks in their own channels as well as to initiate payment orders from that other payment account.

The continued transformation of the payments market, combined with further developments related to *Open Banking*, will show whether new service providers can develop a sustainable business model and obtain a permanent place within the payments landscape.

FinTech Single Point of Contact (SPOC)

In view of the increased market interest in innovation in financial technology, the Bank, in collaboration with the FSMA, set up a single point of contact for FinTech on its website in 2017. The central contact point for FinTech acts as a unique access point to the supervisory authorities and provides answers on questions related to the regulatory framework for financial services in Belgium. Its aim is to promote engagement with firms about financial innovation in order to enhance their understanding of regulatory expectations and to increase knowledge of the regulators on innovations. The SPOC is reachable on the Bank's website on the following link: <https://www.nbb.be/en/financial-oversight/general/contact-point-fintech>.

II. The Changing Cross-Border Payments Landscape

Cross-border payments between Europe and other parts of the world are often cited as being slower, costlier and more opaque than domestic payments³. Yet, both domestic and cross-border payments are undergoing changes due to technological developments and innovations that aim to improve both the efficiency and speed of these transactions. BigTech firms – large companies with established technology platforms – also expressed their ambitions to play an increasingly prominent role in the payments area.

Next to the emergence of new service providers in the Open Banking landscape, the cross-border payments world also observed an uptake in non-bank activity. Over the last years, an increasing number of new actors have built out a global network with the aim to facilitate the flow of international payments through a frictionless experience. These entrants aim to differentiate their product offering, versus that of solutions provided by the existing banking sector, via i) a competitive price setting for currency conversions, which have as target the interbank FX spread, and ii) a customized, frictionless user experience.

In response, the incumbents' side significantly increased its resources devoted to improving the speed, transparency and end-to-end tracking of cross-border payments. Increased competition and transparency in the cross-border payments market can be considered key drivers behind the improvement of the end-user experience within the cross-border payments market. The projected acceleration of these trends will most likely ensure that this positive trajectory can be maintained.

Brexit and its impact on Belgium as the EU hub for global money remittance firms

In view of the uncertainty caused by Brexit, multiple payment service providers decided to relocate their EU activities outside the United Kingdom as to guarantee a continuity in their passporting rights. Since 2017, multiple global money remittance firms, including MoneyGram, Ebury, Transferwise and Worldremit, opted to move their EU activities to Belgium. The influx of these actors can be considered to further strengthen Belgium's position as a key location for global financial market infrastructures. Currently, three more Brexiteers are in discussion with the Bank on the potential relocation to Belgium as home country for their European activities.

³ See Committee on Payments and Market Infrastructures (CPMI), Cross-border retail payments, February 2018.

III. *Stablecoin Systems*

Next to the above-described evolutions in the cross-border payments market, stablecoin systems have become one of the most cited examples of new, emerging global payments arrangements following the June 2019 statement by the Libra Association. The Financial Stability Board (FSB), which defines ‘stablecoins’ as “crypto-assets designed to maintain a stable value relative to another asset (typically a unit of currency or commodity) or a basket of assets”⁴, has correlated the emergence of these arrangements with the still remaining frictions and shortcomings within the (retail) cross-border payments market. The potential widespread adoption of a global stablecoin system, as a means of payment and/or store of value, would introduce, besides a range of perceived benefits related to speed and costs, also several risks to the financial system. These range from consumer protection and data privacy to financial stability and the transmission of monetary policy.

In general, stablecoin systems can be categorized into the following three classes (see Table 1)⁵:

- Asset-linked tokens, whose value is pegged to fiat currency(s) based on the holdings of traditional collateral. These tokens could be asset-backed (eg. gold), fiat-backed (eg. USD or basket of currencies) or asset-fiat-backed;
- Asset-linked tokens, whose value is pegged to fiat currency(s) based on the holdings of crypto-collateral. These tokens could be crypto-asset-backed (eg. ETH) or crypto-and-fiat-backed (eg. mix of ETH and USD); and
- Algorithmic-linked tokens, whose value is driven by an algorithm that issues and sells (or buys back and destroys) tokens according to their relative value vis-à-vis another asset.

Table 1: Classification of stablecoin systems⁶

Traditional Collateral	<ul style="list-style-type: none"> • Asset-backed (eg. gold) • Fiat-backed (eg. USD or basket of currencies) • Asset-Fiat-backed
Crypto Collateral	<ul style="list-style-type: none"> • Crypto-Asset-backed (eg. ETH) • Crypto-Fiat-backed (eg. mix of ETH and USD)
Algorithmic	<ul style="list-style-type: none"> • Algorithmic driven value

⁴ See Financial Stability Board (FSB), Regulatory Issues of Stablecoins, 18 October 2019.

⁵ See Bank for International Settlements (BIS), Investigating the impact of global stablecoins, October 2019.

⁶ See Blockchain.com, 2019 State of Stablecoins, September 2019

In theory, the above-described types of configuration could warrant a higher degree of price stability for stablecoin systems than their crypto-asset peers. This perceived characteristic also makes them more susceptible for potentially becoming adopted as a widespread means of payment and/or store of value; especially when combined with an existing firm's client base.

Up to today, stablecoin systems remain only one of the many initiatives that aim to tackle the still remaining frictions in cross-border payments. Future evolutions will show whether this type of system will gain permanent traction in the market.

IV. Instant Payments

A final key trend currently observed in the market is the development of retail payment systems able to process Instant Payments (IP), also known as “fast” or “faster” payments⁷. The Euro Retail Payments Board (ERPB) defines instant payments as “electronic retail payment solutions available 24/7/365 and resulting in the immediate or close-to-immediate interbank clearing of the transaction and crediting of the payee's account with confirmation to the payer (within seconds of payment initiation)”.

The emergence of IP can be viewed as the logic extension of the digitised society into the world of retail payment systems. On the one hand, the increased societal shift towards online transactions drives the demand for means of payment that are both instant and digital. The classic credit transfer, which requires one working day (or even more) to be settled on the account of the beneficiary, does not meet these needs arising from this digitised society. On the other hand, the recent evolution in technological capabilities also enables the creation of such a real-time payment instrument.

Domestic instant payments are available at different scales in most European countries. Since March 2019, a domestic instant payments solution has been operational in Belgium. After six months of operations, an important uptake has been observed in terms of volume processed, as over 44 million instant payments were executed since the launch of the solution. Today, about 12% of all the credit transfers executed in Belgium are instant credit transfers⁸.

On the European level several IP systems with cross-border capabilities have become operational, such as RT1 by EBA Clearing and TIPS (TARGET Instant Payment Settlement),

⁷ See Committee on Payments and Market Infrastructures (CPMI), Fast payments – Enhancing the speed and availability of retail payments, November 2016.

⁸ See Febelfin, Instantoverschrijvingen groot succes in België, November 2019.

developed by the ECB as an ancillary service to the RTGS system TARGET2 and launched on 30 November 2018. These solutions enable the processing of instant payments between payer and payee using banking services from different countries of the SEPA. By allowing other IP platforms to link to them, those cross-border systems will foster interconnection between IP mechanisms in Europe. The emergence of instant payments mechanisms is not confined to the geographical area of Europe. Multiple jurisdictions, including Australia, Japan and China, already have such mechanisms in place.

Instant payments are often cited as a substitute for paper-based cheques, which are still used in specific commercial sectors, and cash, especially for amounts exceeding the maximum legal value for cash payments (€ 3 000 in Belgium). On top of this, the rising demand for online payments does also not exclude a growing use of instant payments in the e-commerce world, where card payments continue to remain the dominant payment instrument. Furthermore, payment service providers (PSPs) might also decide to use instant payments as the basis for certain mobile payment schemes. In combination with the recently introduced payment initiation services, such a product offering might provide an efficient and frictionless experience.

The impact of the introduction of instant payments on the market remains to be assessed. Yet, current market actors will need to accommodate the shift from batch-processing, on working days only, to real-time processing, on a continuous basis, 24 hours a day, every day of the year. Such a change is likely to have a far-reaching impact on the technical and organisational processes of the PSPs' internal payment systems, IT infrastructure and connected applications. Instant payments might also give rise to specific risks. The need for uninterrupted availability introduces a new perspective for operational risk management processes for the platform, whereas real-time processing makes fraud detection and compliance with anti-money laundering obligations more complex for participating PSPs.

2. Changing consumer behavior

In response to these changes, both consumer behaviour and consumer expectations are changing.

First of all, instant payments may bring a shift in the market offer of payment instruments. Instant credit transfers could be designed in such a way that they could facilitate the development of an alternative to debit card payments or other payment instruments. In case merchants would be offered (by their PSP's) a solution whereby they can trigger an instant payment, initiated by the consumer in a convenient way, this kind of solution may become a competitive alternative to card payments. Another example may be the future lack of the need for e-money schemes. Instant payments may make the use cases of e-money schemes less attractive because customers may not see the need any more to use

e-money to prepay for goods and services as they can at any time pay in real time, using instant payments.

Secondly, in Europe, payment service users (PSU) will be quickly acquainted with the instant processing (debiting and crediting) of their payments once instant payments become wide-spread and available to users. As a result of this, payment service providers will be confronted with a new market “standard” demand for real time clearing and settlement of retail payments, such as provided by the CEC or TIPS.

Thirdly, from the point of view of the cardholder, who is often agnostic about the underlying processing of the electronic payment, the choice of how he pays will be driven by the convenience at the moment of the check-out (front-end) of the payment. Due to innovations such as instant payments, QR codes, NFC, PSU’s will be offered a wide range of front-end payment channels with various authentication methods without the PSU being aware what the underlying payment instrument is. For example, a PSU may not be aware at a point of sale when he is scanning a QR code if he is paying through a debit card or an instant credit transfer transaction.

Lastly, payment service users may also be more and more inclined to use payment methods offered by the tech giants because their social network could benefit from a global reachability offered by the big tech’s multi-country platforms. It is still unsure to what extent stablecoins for example, would spark of the use of tech giants’ electronic payments solutions.

3. Future outlook

As demonstrated by this article, payments are in a state of flux and innovation is rife. Both the Belgian and European market are undergoing a fundamental transformation that is driven by the demand for instant, tailored and frictionless payment arrangements. Each individual stakeholder, be it a financial institution, technical service provider or public authority, must accept this new reality and adapt their agenda accordingly. This article therefore aimed to provide an overview of the key trends and innovations currently driving the transformation of the Belgian and European payments landscape. The key evolutions identified were those related to the impact of Open Banking on emerging business models, the changes taking place within the cross-border payments market and the emergence of instant payments and stablecoin systems. The future will point out which of these trends will have a lasting impact on the payments market

1. Addendum: an overview of the key regulatory changes

On the legal front, national and European authorities have introduced major regulatory changes in order to further shape Europe as a dynamic, innovative and secure retail payments market. The two boxes below provide a short primer on two key legislative acts within this field, the PSD2 and the IFR⁹.

PSD2 – What's in a name?

The PSD2, or the *Revised Payment Services Directive*, aims to stimulate innovation and competition in the payments market by harmonizing the current rules and expanding the scope of regulation to new digital payment services, while keeping abreast of adequate security levels. The amended *Directive* itself applies as of 13 January 2018 and is supported by several Guidelines (GLs) and Regulatory Technical Standards (RTSs), including those on the application of *strong customer authentication* and on the requirements related to the *common and secure open standards of communication* for accessing payment accounts. The *Directive* also sets the rules about the information that payment services providers have to give to consumers and about the rights and obligations linked to the use of payment services. An example of such a rule is the prohibition for merchants to charge consumers additional fees for making payments by certain payment methods (for example for card payments).

IFR – Caps & Unbundling

The IFR, or the *Interchange Fee Regulation*, aims to protect customers paying with cards by addressing the issue of widely varying collectively-agreed inter-bank fees regarding card and card-based transactions. The *Regulation* does this through i) the setting of *caps*, which are EU wide ceilings on interchange fees, and ii) calling for *unbundling*, which refers to the obligation for legal entities to set up a Chinese wall if they conduct both payment card scheme governance activities and payment transaction processing activities.

⁹ Regulation (EU) 2015/751 of the European Parliament and of the Council of 29 April 2015 on interchange fees for card-based payment transactions, OJ. 19 May 2015, L. 123, 1-15.

2. Selected Articles per topic for further reading

Financial Market Infrastructures and Payment Services in Belgium

- National Bank of Belgium (NBB), Financial Market Infrastructures and Payment Services Report, June 2019, available on <https://www.nbb.be/en/publications-and-research/economic-and-financial-publications/financial-market-infrastructures-and>

Open Banking

- European Banking Authority (EBA), Thematic Report on the impact of FinTech on PI's and EMI's business models, July 2019, available on https://eba.europa.eu/file/108540/download?token=kRM_BNoQ.
- Basel Committee on Banking Supervision, Report on Open Banking and Application Programming Interfaces, November 2019, available on <https://www.bis.org/bcbs/publ/d486.pdf>.

Cross-Border Payments

- Bank for International Settlements (BIS), Cross Border Payments, February 2018, available on <https://www.bis.org/cpmi/publ/d173.pdf>.

Stablecoin Systems

- Financial Stability Board (FSB), Regulatory Issues of Stablecoins, 18 October 2019, available on <https://www.fsb.org/2019/10/regulatory-issues-of-stablecoins/>.
- Bank for International Settlements (BIS), G7 Working Group on Stablecoins - Investigating the impact of global stablecoins, October 2019, available on <https://www.bis.org/cpmi/publ/d187.htm>.

Instant Payments

- Committee on Payments and Market Infrastructures (CPMI), Fast payments – Enhancing the speed and availability of retail payments, November 2016, available on <https://www.bis.org/cpmi/publ/d154.pdf>.
- European Central Bank (ECB), Are instant payments becoming the new normal?, August 2019, Available on <https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op229~4c5ec8f02a.en.pdf>