

**From:** COMP DG OFFICE  
**To:** [REDACTED]  
**Cc:** [REDACTED]  
**Subject:** RE: Meeting request - TransferWise  
**Date:** mercredi 15 janvier 2020 14:19:31

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Dear [REDACTED],  
Mr Olivier Guersent expresses his thanks for your message.  
Mr Guersent would have been delighted to meet with TransferWise representatives.  
Unfortunately, due to a very busy work schedule for the coming weeks, he will not be able to do so and he sincerely regrets it.  
Nevertheless, he has asked to Mrs Maria Velentza, Director, to remain at their disposal for a meeting if they so wish.  
Do not hesitate to contact Mrs Velentza's assistant (in copy) in order to find a mutual suitable date/ time for this meeting.  
I remain at your disposal should you need further information.  
Kind regards,



[REDACTED]  
Director General - DG Competition  
MADO 21/25  
Place Madou 1 - 1210 Brussels - Belgium  
Tel : +32 [REDACTED]  
E-mail : [REDACTED]



SCREEN

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Be GREEN, keep it on the

**From:** [REDACTED]  
**Sent:** Monday, January 13, 2020 9:54 AM  
**To:** GUERSENT Olivier (COMP)  
**Cc:** [REDACTED]  
**Subject:** Meeting request - TransferWise

Dear Mr. Guersent,

On behalf of TransferWise, I would like to take this opportunity to congratulate you on your new role as Director-General at DG Competition, European Commission.

We are thankful for your continued commitment to promoting a competitive and innovative financial sector in the EU and supporting European FinTechs.

In 2019, TransferWise moved [REDACTED] euros in payments each month, and grew its team to [REDACTED] employees globally, with more than [REDACTED] employees based in Europe. We will continue to grow our presence here, and have recently opened an office in Brussels.

Going into 2020, we will continue to play our part to promote regulation that bolsters financial innovation to the benefit of European consumers and businesses alike. Our policy priorities focus on [REDACTED]  
[REDACTED]

Notably, we will be closely following the upcoming [REDACTED]  
[REDACTED]

We know your schedule will undoubtedly be very busy in the coming months. If possible, it would be wonderful if we could set up a time with your team to discuss this very relevant policy issue.

Wishing you all the best for 2020.

Best regards,

[REDACTED]

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[REDACTED] | Policy and Campaigns for Europe | **TransferWise**

Email: [REDACTED]

Phone: + [REDACTED]

EU Transparency Register: [843309518020-96](#)



**TransferWise meeting with Maria Velentza,  
Director,  
DG Competition, European Commission**

4 February 2020, 15.30

**TransferWise participants**

[REDACTED]  
[REDACTED]

**Discussion points**

- Interchange Fee Regulation
- Competition in the EU payments landscape
- Direct access to the payments system for non-banks
- [REDACTED]



## What is TransferWise?

**TransferWise** is a cross-border money platform, designed to let our users send and spend their money abroad, like a local.

TransferWise was founded in 2011 to solve the problem of cross-border payments. The old correspondent banking infrastructure is expensive, slow, inconvenient, and opaque, which is why we created our own network to move money around the world.

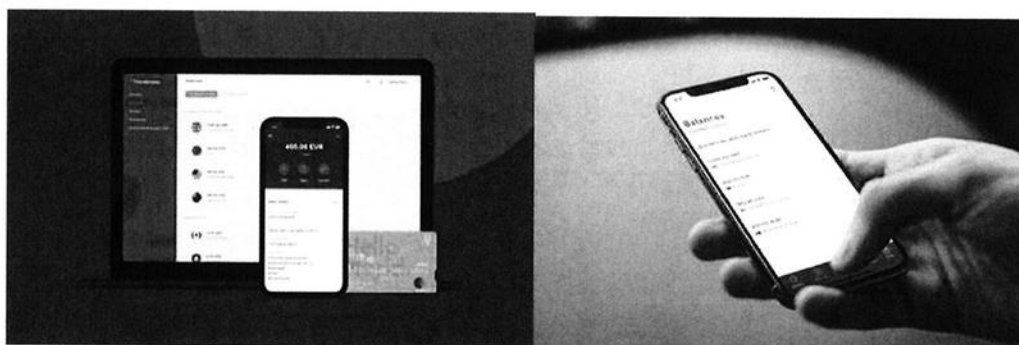
Gradually, we've grown into **one of the largest European fintechs**, moving €4 billion around the world every month and employing 2000 people globally, with 1500 employees in Europe. We have created a sustainable and profitable business model in the region while regularly dropping price for our customers.

Today, over six million people use TransferWise abandoning banks, PayPal and traditional providers, because we're **cheaper, faster** and **easier**.

In the last 8 years, we've opened 5 offices across Europe in Belgium, Estonia, Hungary, Ukraine and the United Kingdom.

## Our mission: Money without Borders

We believe sending money should be as easy as sending an email. Money without borders - instant, convenient, transparent and eventually free. We're powering money for people and businesses in their increasingly global lives - to pay, to get paid, to spend, in any currency, wherever they are, whatever they're doing.



## TransferWise in numbers



**6M** users globally  
every month

**€4BN** in payments

**€1BN** saved by consumers every year

**1500+** employees in Europe

To achieve our mission, we've spent the last few years working towards:

## 1. Fighting for transparent finance

Achieving 'An Economy that Works for People' set out by European Commission President-elect von der Leyen means making the financial system fairer for all Europeans. To do this, we need greater transparency. We're trying to raise the standards for money transfer providers in Europe by **being fully transparent about how much we charge**, and being completely honest about how we compare to our competitors. If another provider is cheaper, we will tell our customers.

### Issues we work on:

- o The push for global transparency in cross-border payments
- o Cross-Border Payments Regulation implementation
- o Interchange Fee Regulation

## 2. Encouraging competition for faster, cheaper, easier payments

Payments are the rails that allow European businesses to thrive: that's why we support the EU's push for a **competitive payments markets**. We look forward to working with you to harness the opportunities created by PSD2 to create a diverse market that puts users and businesses first, opens up access to payment systems for fintechs, [REDACTED]

### Issues we work on:

- o Direct access to crucial payments infrastructure for non-banks
- o Settlement Finality Directive
- o Enabling open banking

## 3. Supporting innovation and growth in Europe



We're a financial services company **powered by tech**. As a sustainably profitable European fintech we're also keen to support the development of the next generation of EU fintechs, fostering innovation-friendly regulation to ensure that Europe remains a world leading startup hub.

We're also committed to fostering the next wave of young European entrepreneurs. For the last two years, we've run a competition for the EU's brightest young business people - 20 Under 20. One of our founders, Taavet, offers the top 20 €1 million of fee-free transfers to help promising young leaders scale their businesses internationally, as well as mentoring and the opportunity to pitch for €10,000 angel investment.

**Key issues we work on:**

- o Supporting the startup ecosystem in Europe
- o Artificial Intelligence and Machine Learning
- o Creating a true Digital Single Market

## PARTICIPANTS

[REDACTED]

[REDACTED]

## AGENDA (AS SUGGESTED BY TRANSFERWISE)

- Interchange Fee Regulation
- Competition in the EU payments landscape
- Direct access to the payments system for non-banks
- [REDACTED]

## SPEAKING POINTS

### Introduction

### Competition in Payments

We closely monitor the shifting dynamics in the payments sector between Big Tech platforms, Fintechs and established banks and card schemes. Many new solutions are based on cards of the established schemes and therefore international card schemes continue to have an important position in the payments business in Europe.

- New competition issues arise, relating to platform market power, data portability, data access or interoperability.
- We will monitor the payments market and enforce competition rules where necessary.
- We will continue to examine how regulation such as the IFR can provide answers to issues which are key to innovation, such as consumer choice of payment wallets;
- We are aware that, while possessing certain competitive advantages, Fintechs encountered difficulties to scale up their operations in Europe and convince a significant number of

customers to switch away from more traditional financial service providers.

- We expect that once PSD II – part of the legislative package on payments - is fully implemented it will stimulate further the development of new payment methods and the entry of new players – notably in the area of digital payments;

### **IFR Review**

- We contracted a study to look at the evolution of payments sector in Europe since entry into force of the IFR in late 2015.
  - The study examined very broadly the effects of the Regulation in all Member States, regarding all stakeholder groups, and concerning all major issues, such as the caps, co-badging, consumer choice, exclusion of commercial cards from caps, evolution of cross-border acquiring, or separation of scheme and processing entities.
  - The study was recently completed and find that main objectives were achieved: reduce and harmonize fees for card payments; pass on part of these reductions to consumers; achieve internal market objectives such as increase in cross-border acquiring, and higher card usage; enhance competition in ancillary markets such as the processing of payments services.
  - We are currently assessing the study's finding and will continue to process input from market participants. We will prepare a Report and submit to the Parliament and Council by the summer of this year.
-



## BACKGROUND INFO

### TRANSFERWISE

TransferWise is a British online money transfer service founded in January 2011 by Estonians Kristo Käärmann and Taavet Hinrikus and is based in London. The company supports more than 750 currency routes across the world including GBP, USD, EUR, AUD and CAD, and provides multi-currency accounts.

TransferWise has about 2000 employees worldwide and recently opened an office in Brussels.

### IFR STUDY

#### IFR study on new payment methods / Fintechs

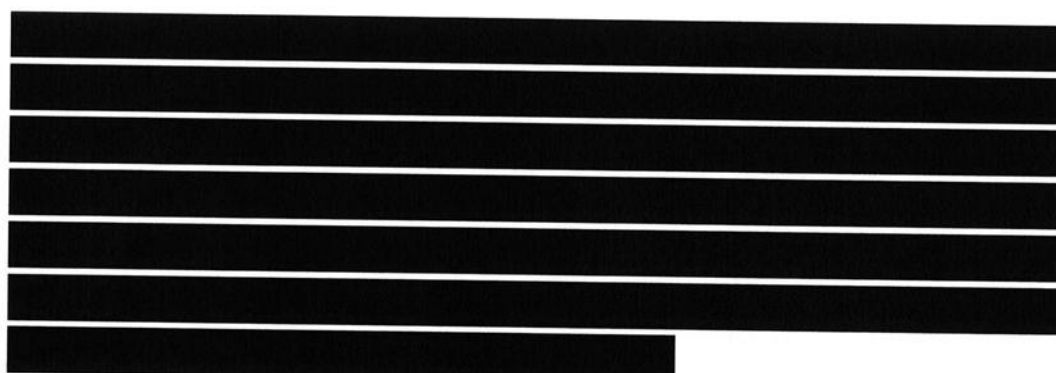
The rise in digital payments has spurred the entry of new payment methods, often from new market players. However, the new entrants and their payment products, which are often operators of digital platforms, are for now regularly card-based, rather than introducing alternatives such as account-based wallets or digital coins. This implies that such entry may consolidate the position of the established card schemes, rather than introduce competitive constraints.

Part of the technologies underlying new payment methods are developed by new innovative companies that are entering the payment sector at different stages of the payment value chain. FinTechs are defined as companies that provide financial services through the use and development of innovative technologies. Often, they specialize in one service, e.g. cross-border payments, mobile and online payment service processing, but digital “neobanks” such as Monzo, N26 and Revolut are also emerging.

While possessing selective competitive advantages, these players have encountered difficulties in scaling up their operations and convince large portion of customers to switch away from their traditional banks and financial service providers. Except for a few cases, among others Adyen, Klarna and Wirecard, which succeed in establishing themselves as relevant players in the market, most FinTechs have not yet manage to achieve a significant position. As a result, FinTech are increasingly seeking partnership with incumbents to overcome these obstacles.

### **IFR Study on BigTechs**

BigTechs such as Apple, Google and Alibaba have also entered the payments market with their wallet products. Besides wallets, these players are considering introducing other products such as digital currency, i.e. Facebook's Libra. While being technologically strong and highly innovative as FinTechs, they can also leverage an already wide user base and brand recognition. They have access to low cost capital to finance their market entry and withstand higher initial business risks. Furthermore, they possess a rich number of users' data and the AI-related competences to extract from it valuable insights to improve their offer to customers. BigTechs have the possibility to bundle or cross-subsidize their payment products with the rest of their services in their ecosystem.



Global players are also coming from China, i.e. Alipay and WeChat, where the market for mobile payments is well developed. However,

they are mainly based on QR technology in contrast with EU where NFC-based solutions dominate. Alipay has recently entered into a partnership with 6 European digital wallets providers to create a unified QR system across MS for acceptance at POS . Some of these payment methods are based on a card-based application and thus processed over a card network, while the payment process for others does not require the card networks.

[REDACTED]  
[REDACTED] The two most frequent digital payment methods used in e-commerce are digital payment wallets (mostly based on cards) and online bank transfers.

### **IFR Study on on-line bank transfers and link with PSDII**

Online bank transfers are another alternative payment method to make online payments. Their importance differs across countries. In this case, consumers make the purchase by directly transferring funds to the merchant from their bank account. This method is account-based, and hence do not rely on the card schemes infrastructure.

The service can be provided directly by banks or by third party payment initiation service providers that can initiate a payment order from the bank account on behalf of the user. Examples of the first group are iDEAL in the Netherlands, Giropay in Germany, Pay-by-links in Poland, and Swish in Sweden. They can be account-based credit transfers (e.g. Ideal, Giropay, SOFORT direct debit), direct debits (e.g. paydirekt) or instant payments (e.g. Swish). In most cases, bank-owned online payment solutions, while being widely used in their respective domestic markets, are not accepted outside of the national borders. Third party providers, i.e. SOFORT and Trustly, on the other hand, are able to operate in multiple countries, allowing users to make online purchases with cross-border merchants.

SOFORT, owned by Swedish company Klarna, is present now in 7 European countries.

The relevance of payment initiation service providers is expected to increase with the introduction of the EU PSD2 Directive which requires banks to grant licenced third-party service providers access via APIs to their customers' bank account information on the availability of funds.

### **Other findings of the IFR study**

The study found that implementation of IFR caps resulted in a significant reduction of interchange fees for card-based payments amounting to an estimated 2,6 bio. Euro annually within EU-28, generating significant cost savings for acquirers.

The Study collected systematic evidence that acquirers pass through part of the cost savings to merchants through lower merchant service charges (i.e. there is a decline in merchant costs of accepting card payments).

Merchant service charges (MSCs) have on average declined from 2015 to 2017 by around EUR 1,2 bio. annually, in particular due to lower charges for credit card transactions. This has in turn led to higher acceptance of card payments and is likely in the longer run to lead to lower consumer prices.

**From:** [REDACTED]  
**To:** [REDACTED]  
**Subject:** Follow up to our meeting  
**Date:** mercredi 5 février 2020 18:22:24  
**Attachments:** \_OB issues letter\_ 2020.pdf  
TransferWise - SCT Inst - position paper.pdf  
TransferWise - direct access to the payments infrastructure - position paper.pdf

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Dear [REDACTED],

Thank you once again for your time yesterday. We'd like to follow up on a few points discussed in the meeting:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

As discussed, please find attached **a letter we sent to the Open Banking Implementation Entity in the UK** detailing the problems we found with the PIS roll out, including issues with redirection and subsequent authentication. We've also attached our positions on instant payments and direct access.

We remain at your disposal for any questions.

Kind regards,

[REDACTED]

[REDACTED]

Dear [REDACTED],

With the OBIE's mandate coming to a close, I wanted to take this opportunity to thank you on behalf of TransferWise for the exemplary work the entity has delivered over the last few years, and the crucial role you've played in driving these new solutions forward. Open Banking is already delivering better financial services, and we're hugely grateful as an ASPSP and PISP.

With that in mind, we'd like to raise a few remaining issues regarding PIS and AIS adoption in the UK. We hope that you will continue to work towards the delivery of the spirit of the order and create a viable alternative payment method and account information services.

#### **Making payment initiation a success**

TransferWise are fully committed to supporting the roll out of PIS in the UK. We are currently the largest payment initiator in the UK, [REDACTED].

[REDACTED]  
[REDACTED]  
[REDACTED] We unfortunately lack the appropriate data from the ASPSPs in order to identify the reason for such a low success rate.

That being said, we are able to identify a few key patterns driving repeated failure rates for our customers:

- **Disproportionate security and SCA issues**
- **Poor user interface**
- **API reliability**

#### **Disproportionate security and SCA issues**

SCA appears to be the biggest source of friction when customers attempt to authorise payments. [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

This issue is magnified through a disproportionate application of 2FA. Anecdotally, we have seen incredibly low value payments triggering 2FA in the flow, where a typical bank transfer would not. This creates unnecessary friction for users, pushing users back toward simpler methods (i.e. card).

This issue has been repeatedly raised by consumer groups, too. We understand that there have been other reports of this behaviour from industry, and the OBIE has acknowledged that "customers may be required to go through several additional steps to complete a low-risk payment, such as when the payee is on a list of regular payees". This is consistent with our experience.

We would encourage the OBIE to consider this as an unresolved issue, in order to drive PIS as a reliable method for UK consumers.

#### **Poor user interface**

TransferWise has also found that poor and unfamiliar payment authorisation interfaces are driving low success rates.

While we do acknowledge that uptake of this method has been slow, leading to an understandable reluctance to invest too heavily in the flows, it is also undeniable that poor user experience leads to a lack of consumer incentive to use the method.

While the success rate for first time users is far too low, we do see that once a user has made an initial payment, subsequent attempts are on average around 85% successful - most likely because they are used to the interface.

[REDACTED]

#### **API reliability**

Uptime as a whole is an issue. We understand that the OBIE is working on improving this, but given the competition - card payments - we would urge continued and greater improvements in order to get this method off the ground.

Unplanned outages are a regular occurrence, with banks rarely being proactive about informing TPPs of issues, and often giving frankly unacceptable (weeks to months) issue resolution times. This of course is in addition to the planned downtimes, which are also regularly occurring.

There is an expectation that the API should be as reliable as the ASPSPs regular online banking, which at this time isn't being fulfilled. While having parity would be a clear improvement, specific SLAs of 99.95% and above are levels that businesses often expect and need in order to build their own business on top of.

#### **Account information**

Lastly, although much of the information is there to enable consumers to compare current account providers. [REDACTED]

[REDACTED]. This means that for the many people and businesses who pay internationally either through card transactions at point of sale or atm, or through sending and receiving international payments, it is not possible to get a comprehensive comparison about which current account would have provided better prices. This is a huge barrier to switching when you consider that the vast majority of UK consumers need to exchange pounds (~75%) and businesses need



to grow and access overseas markets. We would be delighted to submit a formal change request with specifications.

Thank you very much for your time and continued efforts for this incredible initiative. We would be delighted to meet with you and discuss these issues further, if such a meeting may be possible.

Best,

[REDACTED]  
[REDACTED]  
[REDACTED]



## TransferWise - Roadmap to Instant Payments

### Introduction

As part of the European Commission's dedication to creating a truly harmonised Single Market, including for payments, and developing a European (instant) payment option that can compete with the current non-European alternatives, TransferWise is offering its perspective as a fintech company and a non-bank. TransferWise has millions of customers across the EU and is a direct member of some payments schemes and an indirect participant in others, but the company is dedicated to making money move as quickly as possible. Today, over a quarter of all payments through TransferWise globally are instant.

We believe we are in a unique position to offer an insight into how the European landscape of payments could improve and move towards an instant, pan-European solution.

### 1. Payment infrastructure and leveling the playing field

Historically, non-cash payments were provided exclusively by banks. This led them to develop payment systems, in which they were the sole participants. Non-banks play an increasingly integral role in payments systems, yet they are not able to become direct participants in the payment infrastructure. This means that, despite the fact that some non-banks now dwarf many traditional financial institutions, non-banks are still subject to their ability to negotiate commercial agreements with the very same banks they are competing with, in order to access fundamental infrastructure. This ensures that there's no even playing field for banks and non-banks within the payments market.

TransferWise acknowledges the efforts banks have put into contributing to the payments infrastructure, but the contributions made by participants (based on usage) to maintain the infrastructure and protect against data breaches can't be overlooked. However, both direct and indirect participants contribute to the infrastructure: direct participants contribute based on usage and indirect participants are charged a fee - over and above the base cost - in order to facilitate access via a commercial agreement with a bank, who is often a competitor.

While it is true that initial investment is required, we would argue that is outweighed by the revenue generated by the incumbent banks being the gatekeepers and selling access (through indirect relationships) to such systems. Even as these systems are opened up to non-banks (such as the Faster Payment Scheme in the UK) and non-banks become direct participants, everyone pays their fair share.

Indeed, in Europe and the UK, the dominant payment systems were created before the advent of PSD1, meaning that the players that are gaining a 'free ride' were not in existence at the time of the initial investment, but now - in the first instance - pay the bank for indirect access, and then - if granted direct access - pay for direct maintenance of the payment scheme. Therefore, in both cases, it is wrong to imply that some providers are 'free riding'.

We would argue for further opening up of the payment infrastructure, as it ultimately benefits consumers: the cost of a payment for the indirect-participant-becoming-direct-participant goes down, which is passed on to the consumer. Additionally, this would mean that non-banks are no longer reliant on banks adhering to instant payment schemes, and the non-bank can become a direct member themselves, speeding up the innovation in payments being available to consumers.

## 2. SCT Inst

It's crucial for the competitiveness and uptake that SCT Inst is opened up to non-banks. Right now, instant payments are treated as a premium service in many Member States, rather than simply the norm. While SCT Inst has been available since 2017, it has been impossible for indirect participants to gain access to this innovation in instant payments unless their 'sponsoring' bank implemented the scheme. This doesn't just stop the bank's customers from accessing instant payments, but delays the uptake for the indirect participant's customers too.

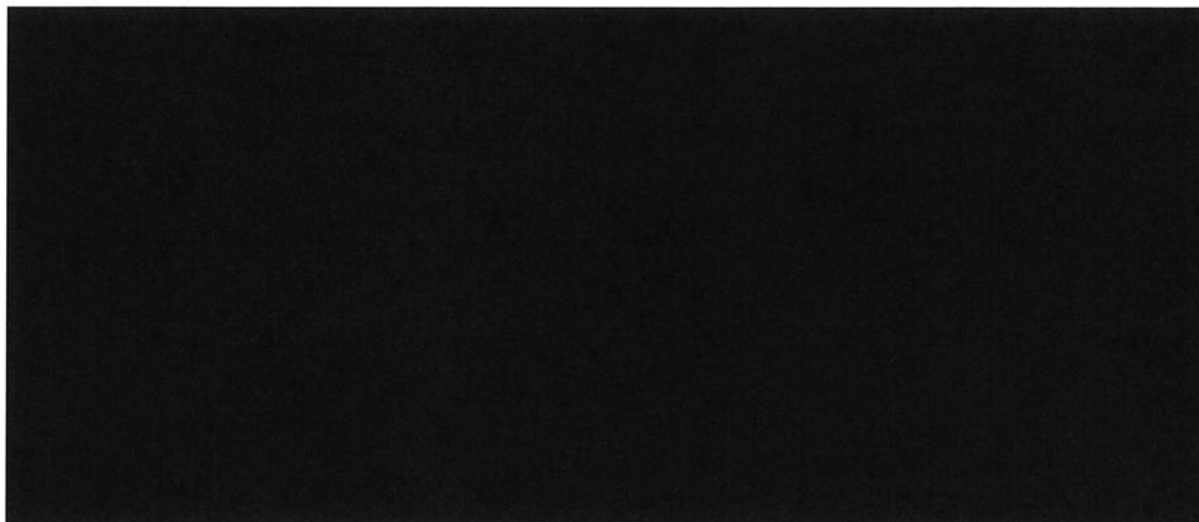
TransferWise believes that for SCT Inst to be adopted across the board, the scheme needs to ensure full adherence and full reachability. The adoption of SCT Inst varies significantly across Europe, which is problematic. As set out by the EPC, in certain cases the adoption of SCT Inst stops at the national border and PSPs are not reachable for cross-border payments. We see the only true solution to this as being legislating for the compulsory adoption of SCT Inst. However, some non-consumer facing PSPs have no business model for SCT Inst, but are still counted as non-reachable, and on the flip side, some Member States have reached nearly 100% reachability of accounts, while less than half of PSPs are considered reachable because there are so many non-consumer facing PSPs.

To provide a solution to the issue set out above, we would argue for full reachability as well as sending capability for accounts, rather than using the number of PSPs as a measurement. Unfortunately, this will not be achieved unless this is made mandatory.

[REDACTED]

[REDACTED]

[REDACTED]



Despite some European banks' reluctance to adopt the new instant standard, it is clear that consumers already expect this level of service. It is understandable that when transferring large sums of money, consumers are comforted by instant payouts, and as instant payments become the norm in more and more Member States, such expectations will only increase.

### **3. Conclusion**

It is crucial that non-banks are allowed direct access to the SCT and SCT Inst schemes in the EU. This doesn't just help speed up the adoption of instant payments across the EU, but it is also a vital requirement if SCT Inst is to become the payments rails of initiatives such as PEPSI or PIS at POS.

Competition from innovative - often non-bank - players will increase the take-up of SCT Inst, but we would argue that only mandatory adoption of the scheme for all accounts, both in terms of reachability and sending capability, will make instant payments universally available.

### **About TransferWise**

TransferWise is a global technology company that's building the best way to move money around the world. Whether you're sending money to another country, spending money abroad, or making and receiving international business payments, TransferWise is on a mission to make your life easier and save you money.

Co-founded by Taavet Hinrikus and Kristo Käärmann, TransferWise launched in 2011. It is one of the world's fastest growing tech firms having raised \$689m in primary and secondary funding from investors such as Lead Edge, Lone Pine, Vitruvian, IVP, Merian Global Investors, Andreessen Horowitz, Sir Richard Branson, Valar Ventures and Max Levchin from PayPal.

Over six million people use TransferWise, which processes over €4bn in payments every month, saving customers over €1bn a year.



## **Payments: direct access and settlement accounts for non-banks**

### **Summary**

Today, the ECB does not allow non-banks to participate in central bank settlement or become direct members of the main retail payment systems. Instead, non-banks need to enter into an inferior relationship and commercial agreement with a bank, often a competitor. It is impossible for these non-banks to fulfil payments for their customers without being a direct participant. This paper will set out commercial and competition issues, innovation issues and interpretation issues, and reliability issues regarding the current set-up, as well as provide insights into futureproofing access to the payments infrastructure.

The solution is straightforward and would help create a level playing field as well as foster true competition. It would make the payments sector fit for purpose for decades to come and present consumers with a variety of options. It only needs one tweak to the Settlement Finality Directive (SFD), which is currently the only impediment to non-banks gaining direct access to the payments infrastructure.

In order to create a truly competitive Digital Single Market in financial services, the EU must allow fintechs and payment service providers equal and independent access to basic infrastructure. Therefore, it is crucial that the most innovative players - often non-banks - have direct access to the payment system, without having to rely on - often traditional - banks.

### **About TransferWise**

TransferWise is a financial technology company specialised in international money transfer and managing your money across borders. Co-founded by Taavet Hinrikus and Kristo Käärmann, TransferWise launched in 2011 as a direct result of the first Payment Services Directive. It is one of the world's fastest growing tech firms having raised \$689m in primary and secondary funding from investors such as Lead Edge, Lone Pine, Sir Richard Branson, Valar Ventures and Max Levchin from PayPal.

Over six million people use TransferWise, which processes over €4 billion in payments every month, saving customers over €1 billion a year.

## 1. Overview and evolution to the current set-up

Historically, non-cash payments were provided exclusively by banks. This led them to develop payment systems, in which they were the sole participants. Non-banks play an increasingly integral role in payments systems, yet they are not able to become direct participants in the payment infrastructure. This means that, despite the fact that some non-banks now dwarf many traditional financial institutions, non-banks are still subject to their ability to negotiate commercial agreements with the very same banks they are competing with, in order to access fundamental infrastructure. This ensures that there's no even playing field for banks and non-banks within the payments market.

[REDACTED]

[REDACTED]

## 2. Case study illustrating the current marketplace

TransferWise is an international money transfer company (licensed as an e-money institution in the UK and as a payment institution in Belgium), but it uses the domestic payment infrastructure to facilitate cross-border payments for its users. For example, if a user sends money from France to the UK, they would send the euro amount to TransferWise's euro bank account and TransferWise would pay out the pound amount from its pound account in the UK. Two domestic transfers replace one international transfer. Currently, TransferWise is required to access the payment infrastructure via a sponsoring intermediary bank in most jurisdictions, as non-banks are not able to make use of the domestic payment infrastructure independently.

The notable exception is the UK. In 2017, the Bank of England announced that non-banks would get direct access to the payment scheme and would be granted a settlement account if they complied with the requirements. This was made possible via a broader definition of 'institution' in the Settlement Finality Directive, including e-money institutions as well as payment institutions.

In other European markets, TransferWise is reliant on indirect membership and being sponsored by a commercial bank. However, some markets have been more open to granting direct access to non-bank.



A great example is Hungary, where the central bank allows non-banks to apply a settlement account if they comply with the necessary requirements. Until recently, this was mostly reserved for traditional institutions such as insurers, but now includes non-bank PSPs. TransferWise will be taking this opportunity to directly integrate and save its customers money in the process. [REDACTED]

Overall, the lack of access to settlement accounts and being able to directly plug into the payments system in other European markets translates into a number of disadvantages faced by most non-banks. They will be set out in the next section.

### 3. Shift in policy towards non-banks needed

Consistently, there have been calls to adopt a more inclusive approach towards non-banks in order to ultimately create tangible benefits for consumers. The Bank for International Settlements' (BIS) Principles for Financial Market Infrastructures, state that *"a financial market infrastructure should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access."*

Furthermore, the BIS Committee on Payments and Market Infrastructures (CPMI) and the World Bank concluded that:

- *"Payment infrastructures, including those operated by central banks, have objective, risk-based participation requirements that permit fair and open access to their services."*
- *Increased interoperability of and access to infrastructures supporting the switching, processing, clearing and settlement of payment instruments of the same kind are promoted where this could lead to material reductions in cost and to broader availability consistent with the local regulatory regime, in order to leverage the positive network externalities of transaction accounts.<sup>1</sup>"*

Despite the weight of these two leading institutions, their recommendations are not reflected in today's European policy towards non-banks. In the current set-up, non-banks face disadvantages in a number of ways.

#### 3.1. Commercial and competition issues

- Consumers have an array of options in the current marketplace, thanks to increasing competition from banks and non-banks alike. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

- [illegible]

### 3.2. Reliability issues

- Non-banks are operationally reliant on an intermediary to make payments on their behalf, which means that they incur credit risk where receipts of funds are held with the intermediary. This can occur because of different bank holidays in different markets, or because an intermediary is going through maintenance, rendering their service unavailable. Therefore, the non-bank is exposed to an imbalance they cannot correct themselves.
- Onboarding time: newer entrants (often non-banks) are more agile and easier to integrate. To illustrate this point: TransferWise onboarded with the UK's Faster Payments System in record time. At the time, the usual integration period was around three years, while TransferWise was onboarded in under a year.

### 3.3. Innovation and interpretation issues

- Intermediary banks can become bottlenecks for innovation:
  - As intermediary banks have a say in PSPs' processes and behaviour, they can hinder the uptake of innovative solutions such as regtech in the PSP's compliance process. If these intermediaries disapprove of compliance or verification processes used by newer entrants, the non-bank risks de-risking and losing their indirect membership. Innovative processes relying on regtech are often more efficient than those used by incumbents. Innovation is hindered because incumbents' systems haven't been revamped in over 30 years. By avoiding to futureproof these systems, traditional banks often lack the knowledge or understanding of newer processes that are reliant on the latest technology.
  - A non-bank depends on the API of a bank to access newer payment schemes, such as SEPA Instant. If the bank builds an API that is not fit for purpose, the non-bank will suffer the consequences as it is entirely reliant on the bank's progress on adopting innovation. The example of SEPA SCT Inst is a tangible one: while it has been launched for some time, banks around the Union have only started adopting it recently, while non-banks

have been eager to get involved since the start, but have not been able to because they depend on the bank to adopt the new scheme rules. In the end, the end-user is the victim, as they have to wait for a disproportionately long time before new schemes, rules and technologies become available to them. If non-banks had been able to settle with SEPA instant, banks would have been put under much more pressure to adopt the new scheme sooner.

- The rules of the payment schemes are not always black and white, and can be interpreted differently by different participants. The different interpretations of the Wire Transfer Regulations is a prime example. Intermediary PSPs choose how they interpret certain requirements based on what they are comfortable with. If their interpretation is questionable or cannot be strongly defended, both the bank and the sponsored non-bank are liable. This creates an unnecessary risk for non-banks.
- If an intermediary ASPSP doesn't have the capability to send or receive certain information that is necessary for the non-bank to comply with their obligations (e.g. under the Wire Regulations) because the bank doesn't have the necessary technology, the non-bank is ultimately breaking the law, while it is in fact the intermediary bank who is responsible.
- Intermediary banks may not pass on relevant information on to the non-bank in time. E.g. a direct participant might be down and is unable to pass on payments. That status update may be reserved to direct participants only, but the consequences for the customers of the non-bank could be huge. Mortgage payments may need to go through, but if a direct participant has scheduled maintenance for the whole day, the non-bank will not be able to provide the payment in time and customers may lose their house. This is an extreme example, but it has happened. Non-banks should be able to warn customers in time.

### **3.4. Systemic risk, and de-risking challenges**

- Currently non-banks are required to safeguard the entirety of all customer deposits in authorised credit institutions. However, simply put, some non-bank PSPs are larger than many of the banks that are required to serve them for access to the payment systems. This means that in many markets non-bank PSPs are increasingly clustered around a small number of banks that are large enough or have the risk appetite to offer commercial clearing. Opening up access to the payment systems reduces systemic risk, by reducing the dependency of PSPs on a small number of banks.

## **4. Conclusion and changes to the Settlement Finality Directive**

Indirect access remains an inferior form of access, as non-banks are entirely dependent on a commercial agreement with a bank. Dependent on the non-bank's market size and segment, marketing stance, way of working and so on, an intermediary may not want to provide a service to them. For a large number of smaller new entrants, it may not be cost-effective to join the payment scheme as a direct participant because of a small number of transactions or volume that flows through their systems, which is why indirect access should remain available.

However, it would be best practice to adhere to the requirements and risk-based approach - and establish risk-based and objective access criteria - without imposing a strict banking license only rule. As

set out above, this no longer corresponds with the consumer-facing competition landscape and it doesn't reduce the systemic risk to the financial system to reserve direct access for banks only.

[REDACTED]

[REDACTED]

[REDACTED]

If non-banks are forced to remain dependent on banks via indirect membership, another financial crash similar to the 2008 crisis would be catastrophic. If financial institutions deemed too-big-to-fail, would end up failing, the knock-on effect facilitated by indirect membership would spell disaster for consumers. Direct access would significantly reduce the systemic risk and reliance on banks for processing the payments for both consumers and businesses alike.

This can all be achieved with an easy tweak to the Settlement Finality Directive in order for the ECB to have the legal certainty it requires. The SFD was aimed at 'contributing to the efficient and cost effective operation of cross-border payment and securities settlement arrangements', which is a great argument to include non-banks. As set out above, the definition of 'institution' needs to be expanded to cover electronic money institutions within the meaning of the E-Money Directive, and authorised payment institutions or small payment institutions as defined in the Payment Services Directive.

[REDACTED]

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From: [REDACTED]

Sent:

jeudi 6 février 2020 11:48

To: [REDACTED]

Subject:

RE: Follow up to our meeting (Transferwise)

Dear [REDACTED]

Thank you for taking the time to come and see us and for this detailed submission and the accompanying materials. We will read them carefully and take note.

Should the need arise, we will follow up with additional questions, thanks for your availability.

Kind regards

and the payments team

[REDACTED]

[REDACTED]



[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

