

## Chapter 6

# The Transformation of Payments Industry: The European Regulatory Perspective

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### **ABSTRACT**

*Mobile payment is an innovative area, which will speedily grow in the coming years. The mobile payments in the European vision stresses as payment industry transformation to the digital economy. This management transformation applied via seamless availability for the users and business in an open cross-country platform, to meet the user requirements and will not hinder the mobile payments industry transformation. Several regulations and directives have been made on the European Union context to realize this vision; however, there is still a challenging road ahead. Directives and regulations legislated to increase the confidence payment transformation and users by instructive the rights and obligations of all mobile payments parties, providing the requirements for transformation such as interoperability, likewise users requisites such as security and customer protection. This chapter provides a brief overview of these directives and raises to some critical matters that have to be taken into consideration for successful management transformation of a pan-European mobile payment service in the Fintech context.*

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## **1. INTRODUCTION**

Due to evolution in digitalization, various financial technologies are being innovated, such as financial technologies (Fintech) solutions. Notably, digitization of Fintech and using mobile devices is driving expectation for fast, convenient and borderless payments between users and providers in Fintech context, ecosystems, retail purchases and business transactions (Swift, 2018). Although the digitalization in the financial industry, mobile payments are still limited used in a limited area, due to numerous regulations and introducing to the market (Swift, 2018). However, as high adoption of the mobile device in global and electronic shopping is activated, the mobile payments market has expanded largely (Humbani & Wiese, 2019).

According to Juniper Research 2019, almost 2.1 billion consumers globally will be using mobile payments to pay or transfer money. According to Capgemini's World Payments, Report transaction-related non-cash conducted via mobile payments were estimated to 41.8 billion globally. About 71% (or 29.7 billion) were conducted via the payment apps and e-wallets provided by Fintech Techs to their customers (The Paypers, 2019).

The European Union, including 28 member states, has made steps concerning harmonization for cross-border payments within the Union (European Commission, 2015). Currently, 19 member states have the Euro as their local currency and the Payment Services Directives established the Single European Payments Area (SEPA), which enables euro payments between consumers and businesses under the same conditions member states. In this context, regulation can provide secure and interoperable payments services to provide value to consumers and businesses (Single euro payments area (SEPA), 2018). Besides, regulation can provide member states with the opportunity to enhance financial services and play a role in the transformation of the payment industry. In this context, transformation leads to network externalities among consumers and businesses (Union, 2015).

Digitalization is driving the transformation in the payment industry in Europe. The drivers of the transformation are including customer expectations, technology; competition. This driver is a challenging process for the financial institutions as banks, mobile network operators (MNOs), technology providers, merchants. The challenges remain in designing and provide interoperable mobile payments, include customer protection. Moreover, starting a universal open service rather than a closed payments solution, which organized and managed under restrict regulation for country level, regional level, and international level.

Regulation is the main driver for payment transformation in Europe. The main objective of current EU regulation established a single, competitive market to drive the payments transformation globally. The implementation of the Payment Services Directives (PSD 1, PSD2), and the introduction of pan-European direct

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