BRIEFING

EU Legislation in Progress

European Parliament

Payment services framework

CONTEXT

On 28 June 2023, the Commission tabled a package of proposals to strengthen the payment services framework which would address the issues raised by the review of the (revised) Payment Services Directive (PSD2) – the core EU legislative act of the framework. The main issues highlighted are: a) the risk of fraud and lack of confidence in payment services; b) shortcomings in open banking; c) inconsistent application across Member States; d) an uneven playing field between banks and non-bank payment service providers. The package consists of a proposal for a revision of PSD2 – thus PSD3 – and a proposal for a new regulation enhancing supervisory consistency in the EU – which would cover large sections of PSD2. PSD3 would encompass electronic money services, repealing the governing directive.

LEGISLATIVE PROPOSAL

2023/0209(COD) – Proposal for a Directive on payment services and electronic money services in the Internal Market amending Directive 98/26/EC and repealing Directives 2015/2366/EU and 2009/110/EC – COM(2023) 306, 28 June 2023.

2023/0210(COD) – Proposal for a Regulation on payment services in the internal market and amending Regulation (EU) No 1093/2010 – COM(2023) 307, 28 June 2023.

NEXT STEPS IN THE EUROPEAN PARLIAMENT

For the latest developments in this legislative procedure, see the Legislative Train Schedules: 2023/0209(COD) and 2023/0210(COD).

IN THIS BRIEFING

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Issue

The Payment Services Directive 2 (PSD2 – Directive (EU) 2015/2366) constitutes the core component of the current legal framework for retail payments in the EU. It was adopted in 2015 and has been applicable since 2018; it repealed the initial payment services directive with the twofold objective of improving payment security and supporting competition and innovation through open banking.[1] PSD2 sets out the rules governing payment institutions involved with payment transactions, including those offering open banking-related services. It ensures the transparency of conditions and information requirements for payment services, the rights and obligations of payment services users – henceforth, the 'users' – and providers, and the protection of consumers' financial data. PSD2 was, to a large extent, meant to support the development of open banking by opening payment services to companies offering services based on access to a payment account.

In its review of PSD2, the Commission found that PSD2 objectives were not fully met, and identified four key issues:

a) consumers are still at risk of fraud and many continue to prefer cash payments over other means,
b) open banking functioning is still imperfect, especially regarding the performance of data access interfaces,
c) supervisors in EU Member States have inconsistent powers and obligations,
d) there is an unlevel playing field among payment service providers (PSPs), partly resulting from the lack of direct access to certain key payment systems.

Therefore, to address these issues, the Commission put forward the 'payment services package'[2] on 28 June 2023, which includes two proposals:

1) A proposal for a single directive encompassing the revision of two directives, namely PSD2 and the directive on electronic money (e-money) services. The proposed second revision of the payment services directive – henceforth, PSD3 – would merge rules governing payment services and e-money services (EMS), especially regarding licensing and authorisation. PSD3 would also amend the settlement finality directive to enable non-banks to access payment systems.
2) A proposal for a payment services regulation (PSR), which would replace the part of PSD2 on rules concerning payment services activities to standardise open banking, accessibility and fraud prevention in customer authentication.

Main points of the proposals

The second revision of the payment services directive

In its proposal, the Commission declares that the proposal for PSD3 is largely based on Title II of PSD2 on 'Payment Service Providers'. PSD3 would update and clarify the provisions relating to payment institutions, and integrate e-money institutions as a sub-category of payment institutions – thus repeals the second electronic money directive 2009/110/EC. Particularly, PSD3 clarifies key definitions, which are aligned with PSR. The scope of PSD3 chiefly covers the access to the activity of PSP and EMS provider by payment institutions.

Box 1 – Payment service providers and payment institutions in the proposal

PSD3/PSR Annex I defines seven categories of payment services (definitions in PSD3 and PSR):

1) Services enabling cash to be placed on and/or withdrawn from a bank account
2) Execution of payment transactions
3) Issuing of payment instruments: providing a payer with a payment instrument to initiate and process the payer's payment transaction
4) Acquiring of payment transactions
5) Money remittance: payment service where funds are received from a payer for the sole purpose of transferring payments
6) Payment initiation services (PIS): placing a payment order at the request of the payee (recipient) or payer
7) Account information services (AIS): online service of collecting and consolidating information held on one or more payment accounts of a payment services user.

Technically speaking, PSPs (6) and (7) are not involved with the fund transfer. PSD3/PSR define electronic money (e-money, PSD3 Article 2(34)); e-money services are the issuance of e-money, the maintenance of payment accounts storing e-money, and the transfer of e-money. 'Payment institutions' are defined as legal persons granted authorisation as a PSP or EMS provider (PSD3 Article 2(3)).

Licensing and supervision of payment service providers

In PSD3, PSPs' application procedures for authorisation are mostly unchanged compared with PSD2, except that applicants would now have to submit a winding-up plan (PSD3 Article 3(3)(s)), and the same rules apply to EMS providers (PSD3 Article 3(1)). Account information services are not subject to authorisation procedures, but they must provide the same information for the registration (PSD3 Article 36(1)). Moreover, unlike PSD2, holding initial capital of €50 000 now constitutes an alternative to professional indemnity insurance (PSD3 Article 36(5)).[3] Safeguarding rules for payment institutions are also unchanged, except that a new option of safeguarding in an account of a Member State's central bank – at its discretion – is introduced (PSD3 Article 9). The same safeguarding rules apply to payment institutions whether they are PSPs only, or also EMS providers. In addition, PSD3 introduces details on internal governance of payment institutions, as well as a new definition of distributors of electronic money and related provisions.

Member States and the European Banking Authority (EBA) would continue to maintain a register of authorised payment institutions and also develop a list of machine-readable payment initiation service providers and account information service providers. The PSD3 proposal lays down provisions for cooperation between national competent authorities, clarifying the rules in this regard and adding the possibility for these authorities to request the EBA's assistance in solving possible disagreements between them. PSD3 also specifies the documents that payment institutions which only carry out account information services must provide in their registration application.

Provisions concerning cash withdrawals

Operators of retail stores are exempted from the requirement for a payment institution licence when they offer cash withdrawal services without a purchase on their premises (on a voluntary basis), if the amount of cash distributed does not exceed €50. Distributors of cash via automatic teller machines (ATMs) who do not service payment accounts – known as 'independent ATM deployers' – are exempted from the licensing requirements of payment institutions, and subject only to a registration requirement accompanied by certain documentation.

Transitional provisions

PSD3 provides for several transitional measures for existing activities. For example, the validity of licences for payment institutions and electronic money institutions is prolonged – 'grandfathered' – until 30 months after entry into force, and application for a licence must be submitted, at the latest, 24 months after the entry into force of PSD3.

Payment services regulation

The aim of PSR is to set the rules for PSPs regarding payments, leaving the list of payment services established in PSD2 unchanged. It lays down these rules and provides uniform requirements on the provision of payment services and e-money services as regards:

1) the **transparency** of conditions and information requirements for PSPs and electronic money services whenever a currency conversion service is offered at an ATM and prior to the initiation of the payment transaction;
2) the **rights and obligations** of payment and electronic money service users, and of payment and electronic money service providers in relation to the provision of payment services and electronic money services.

PSR requires credit institutions to provide payment institutions with payment accounts, unless it is justified to refuse or close such accounts on serious grounds, such as suspicion of illegal activities, breach of contract, or insufficient information provision (PSR Article 32). PSR also provides that the payer's PSP should offer the user the possibility to set fair and proportionate spending limits for payment transactions. PSPs should block the payment in case of objectively justified risks relating to the security of the payment instrument, or suspicion of unauthorised or fraudulent use of the payment instrument (PSR Article 51). In addition, PSR includes titles on means of communication and PSPs' liability for unauthorised payment transactions. It provides that, where the PSP has reasonable grounds for suspecting fraud by the payer, it should – within 10 business days after noting or being notified of the transaction –refund the payer if the payer's PSP has concluded, after further investigation, that no fraud has been committed by the payer (PSR Chapter 4).

In section 3 on rights and obligation of account servicing PSPs (ASPSPs, PSPs providing and maintaining a payment account for a payer), the PSR proposal introduces a new article (Article 44) that prohibits ASPSPs from creating obstacles to PIS and AIS providers. Prohibited obstacles include preventing use of credentials (Article 44(a)), requiring PSPs or AIS providers to 'manually input' the unique identifier (Article 44(b)) or requiring additional registration of information (Article 44(c)), and requiring strong customer authentication (SCA) more times than necessary (Article 44(h)).

PSR introduces two articles (Article 83 and 84) which hold the PSP responsible for transaction monitoring to avoid fraud. Monitoring involves analysing records of payments and data access (clause 2) and exchanging information with other PSPs (clause 3). Article 84 requires PSPs to alert users – 'via all appropriate means and media' – when new payment fraud emerges, and how to identify fraudulent attempts. PSPs should also arrange training programmes for their employees. Article 85 provides further details, compared to PSD2, on PSPs' obligations regarding SCA. Although the definition of SCA is unchanged,[4] the PSR proposal would exempt SCA transactions under some circumstances, for example, where payees mandate the payer to initiate the payment, or the order is placed by the payer using 'modalities other than the use of electronic platforms or devices'.

Finally, PSR would establish that AIS and PIS providers should access payment account data exclusively via the dedicated data access interface, always identify themselves, and access only the data that they need to meet their obligations and provide the service (PSR Article 45). Access to payments account data without proper identification (so-called 'screen-scraping') should, in any circumstances, never be performed. ASPSPs, and AIS and PIS providers may establish a contractual relationship. PSR would establish that ASPSPs shall have in place at least one dedicated interface for the purpose of data exchange with AIS and PIS providers (PSR Article 35). Where this interface is unavailable, competent authorities may authorise AIS and PIS to use an interface that the ASPSP uses for authentication and communication with its users (PSR Article 38(4)).

Parliament's prior position

Parliament mainly expressed its position on the payment services framework in three resolutions before the Commission published the package of proposals in June 2023. In its resolution of 13 December 2022 on the digital divide (the social differences created by digitalisation), Parliament called on the Commission to examine, in its PSD2 review, 'how to further increase the security of digital payments and combat payment fraud, including online scams, as well as to ensure consumer protection, while taking into account citizens'. It stressed the importance of protecting personal data and privacy, especially for people unfamiliar with online data security. It also called for SCA to be extended to means of communication other than mobile phones, such as email, phone calls or human attention at the counter. Parliament regrets that PSD2 does not provide consumers with a direct right to request an alternative authentication method and calls on the Commission to consider the risks of discrimination against vulnerable groups.

In an earlier resolution of 8 October 2020 on digital finance and the emerging risks in crypto-assets, Parliament emphasised the importance of open banking for improving the quality and costs of payment services. Moreover, the transition from open banking to open finance – involving financial services other than payments – is a strategic priority. Regarding fraud, in its resolution of 16 February 2022 on the implementation of the sixth VAT Directive Parliament recalled the role of PSPs in combating VAT-related cross-border fraud through information exchange.

Prior positions of other EU institutions

European Economic and Social Committee (EESC)

In its opinion on open finance and payments of 13 December 2023, the EESC recommends providing the supervisory authorities of the host Member State with more powers regarding payment institutions. The EESC also proposes to include or refine some definitions, such as 'gross negligence', 'authorisation' and 'suspected/actual fraud', liability in cases of fraud and/or scams, and also the sharing of responsibilities between participants in the payment, especially PSPs and payees. Finally, the EESC believes that PSPs should further monitor transactions. In a previous opinion of 24 March 2021 on the retail payments strategy, the EESC agreed on the need to expand PSD2 to include PSPs that currently fall outside its scope. Any relevant player should be regulated and supervised in order to guarantee a level playing field.

Council

In its conclusions of 22 March 2021 on the Commission communication on the retail payments strategy, the Council welcomed the review of the implementation of PSD2, arguing that it should focus on the suitability of the directive's scope and the specification of definitions. Moreover, the Council expected the review to cover the evolution towards open banking, measures regarding privacy-related risks, the interaction with the European Data Protection Board (EDPB) guidelines, and the effect on competition. The Council emphasised issues associated with fraud and consumer protection, and the conclusions also addressed the possibility of applying a maximum execution time to all transactions.[5]

Preparation of the proposal

Impact assessment

In its impact assessment,[6] the Commission explains that, while significant improvements have been made in the payments sector since PSD2, the objectives have been only partially met. The impact assessment on PSD2 focused on four problems to be tackled:

- despite SCA, the risks of fraud remain, and some consumers still lack confidence in payment schemes, or simply prefer to use physical cash;
- the open banking market functions imperfectly, especially as regards data exchange;
- enforcement and implementation of PSD2 vary across Member States due to national competent authorities having inconsistent powers and obligations;
- a level playing field is missing among PSPs, especially regarding access to payment systems by third-party providers.

The impact assessment concludes that these problems are essentially due to gaps and imperfections in the legal framework. It is mostly qualitative overall, with some quantitative estimates of the costs incurred. It proposes 16 policy options to achieve the four specific objectives and selects 12 options as part of the preferred options package.

European Banking Authority consultation

On 23 June 2023, the EBA published its response to the call for advice from the Commission. The EBA raised 'many issues and challenges' in the payment services framework that need to be addressed. It calls on the Commission to clarify the application of SCA and address the enforcement shortcomings in its implementation and application for e-commerce card-based transactions. The revision should also allow for modernisation of the framework to address new security risks for customers – such as social engineering fraud – and address concerns about approaches to authentication – such as those based on smartphones – that have led to the exclusion of some people. The revision should also address underlying issues and obstacles to the provision of PIS and AIS. Finally, the EBA suggests merging PSD2 with the e-Money Directive, and that the revision of PSD2 should promote 'open finance'.

External study

The Commission requested an external study on the application of PSD2. The study makes recommendations to address the issues identified, framed around three areas: PSD2's scope and exclusions, open banking, and data and consumer protection.

According to the study, the supervisory fragmentation across the single market must be addressed – for instance, by establishing a standing committee for coordination involving the EBA and the national competent authorities. The study also finds potential competition issues due to large technology companies ('big techs') having access to a larger network. Solutions include the continued monitoring of competition, the results of which would be communicated to the European Parliament and made public. A third issue identified by the report relates to the 'legal uncertainty' regarding the scope of PSD2, and the need for a clearer definition of 'payment service' that is applied consistently across Member States. The study also suggests unifying PSD2 and the e-Money Directive.

On open banking, the study identifies issues regarding standardisation and interoperability which need to be addressed, with the European Payment Council[7] taking a coordinating role in the euro area. In addition, incentives could be introduced to make businesses cooperate on regulatory and technical standards. The study is also concerned over whether PSD2 covers new means of payment, as well as the obstacles faced by FinTechs – i.e. all applications of technology to financial services.

The last area of recommendations relates to data and consumer protection. The study suggests establishing a more efficient data authorisation and customer identity control system through enhanced coordination between the EBA and data protection authorities. It also recommends improving protection of users in the context of growing cashless payment systems – for instance, by setting different levels of protection and liability based on the user's degree of vulnerability and developing mechanisms for cross-border disputes on rights and obligations.

Open banking

In its report on the PSD2 review, the Commission emphasises that the study identified recurrent problems regarding effective and efficient access by AIS and PIS providers to data held by ASPSPs. AIS and PIS providers also frequently report that the dedicated interfaces vary in quality and performance. ASPSPs report significant implementation costs for the development of the dedicated interfaces and regret that PSD2 prevents them from charging AIS and PIS providers. ASPSPs also often express dissatisfaction with the low use of their dedicated interfaces by the latter and the continued use by some of them of their customer interface rather than of the dedicated interfaces.

For its proposal for a revision of the payment services framework, the Commission opted to make a number of targeted amendments to improve the functioning of the open banking framework, and avoid radical changes which might destabilise the market or generate significant implementation costs. The Commission also opted not to impose a new fully standardised data access interface.

Points of view

In their position paper on PSD3 of September 2023, the European consumer association (BEUC) supports the transparency requirements in PSD3, accessibility and the new rules to speed up the release of blocked funds. However, it regrets that open banking would still jeopardise data security. For instance, consumers should not be asked to enter personal security credentials on third-party websites, nor should they be denied transactions when refusing to share their data via open banking. While BEUC welcomes the introduction of a bank account name check for all credit transfers and the obligation to monitor transactions, it regrets that sharing of information on fraudulent bank accounts is not mandatory for PSPs. BEUC also regrets that consumers will remain liable in most cases of fraud, and believes that the texts should clarify who would have to demonstrate the 'gross negligence'. Finally, BEUC argues that law enforcement will remain ineffective if the fragmented supervisory environment is left unchanged.

In March 2024, the European Banking Federation (EBF)[8] published its position, where it welcomed the package proposal. In the paper, the EBF believes the package is likely to strengthen the payment services market, provided that some important elements are integrated, most notably on fraud and liability, open banking and SCA. On fraud and liability, the EBF argues that the measures focus on the period after the fraud is committed, whereas they should also address prevention, detection and targeting criminals. On open banking, the EBF argues that it is of major relevance that PSR corrects the imbalances created by PSD2, particularly when it comes to enabling the compensation of all parties in the open banking ecosystem. On access to accounts, the EBF considers the move towards the sole use of APIs to be very welcome, but that the proposal should clarify that no new or permanent contingency access is required, and that no new functionalities are to be provided. Finally, the EBF says it is important that SCA is not fundamentally altered by the review, especially by introducing potentially costly measures. For instance, the proposed requirement for PSPs to have outsourcing agreements in place with technical providers would not be feasible and would not add any value as it is currently drafted in the Commission's proposal.

The European Investment Fund[9] (EIF) published a report in October 2023 that examines the impact of PSD2 and open banking platforms on inclusive finance in the EU, with a focus on the Netherlands' FinTech ecosystem. The study finds that, while PSD2 strengthens the infrastructure necessary for financial inclusion, there are still several areas for improvement, which include adjustments to the know-your-customer and anti-money-laundering processes for underserved customers, innovative ways to communicate PSD2's potential, and the regulation of technology providers' activities to build trust. On the ecosystem, there is a need to strengthen and improve microfinance regulation according to the opportunities provided by PSD2 to support micro-finance institutions in scaling up and reaching underserved clients across borders. Open banking improvements can also be achieved by organisations formed by micro-finance institutions and FinTechs in collaboration with banks. Finally, an inclusive EU open banking sector depends on the centrality of trusted supervisors as coordination bodies.

An academic empirical study published in 2020 shows that PSD2 caused a rapid but temporary surge in PayTech start-ups.[10] After PSD2 entered into force in 2018, the number of new entrants fell that year, although it remained at a higher level than before PSD2's adoption, suggesting a positive impact overall. The empirical analysis shows that market potential, the characteristics of payment systems, including the popularity of payment cards, and the public environment for FinTech start-ups provided by the authorities largely explains the trend. The introduction of PSD2 allowed PayTechs to operate on a pan-European level while based in a Member State.

In a blog published in 2025, the Center for European Policy Studies (CEPS) underlines the 'success story' of the EU payment systems thanks to the regulatory framework – not only PSD2, but also the target instant payment settlement initiative launched in 2018, and the instant payment regulation. However, the author notes the EU's objective of guaranteeing strategic autonomy, the relevance of which has increased since the review of PSD2 was initiated. Today, third-country companies dominate card payment services and provide most payment solutions in Europe, calling into question Europe's strategic autonomy and the resilience of the payment services industry. This issue can also be addressed by, for example, the digital euro and other industry-led initiatives such as the European Payments Alliance (EuroPA)[11] and the European retail payments framework proposed by the European Third Party Providers Association.

Background information

What open banking has achieved

Currently, PSD2 governs open banking in the EU. AIS providers and PIS providers are two PSPs which are not involved directly with the transfer of funds (see Box 1), and are thus third-party providers (TPPs). AIS provides a user with an analysis of their payment accounts, helping them to manage their finances or receive services from other providers such as an accountant, auditor, or credit scoring bureau. PIS providers are account-to-account, non-card-based payments and can be found in e-commerce as one of the payment methods offered by merchants. AIS and PIS both require the consent of the user to access the data related to the 'payment account'; access, storage and use is limited to the data needed to perform the service requested by the user. AIS and PIS can also be combined – for example, to provide a better service or increase prevention of fraud.

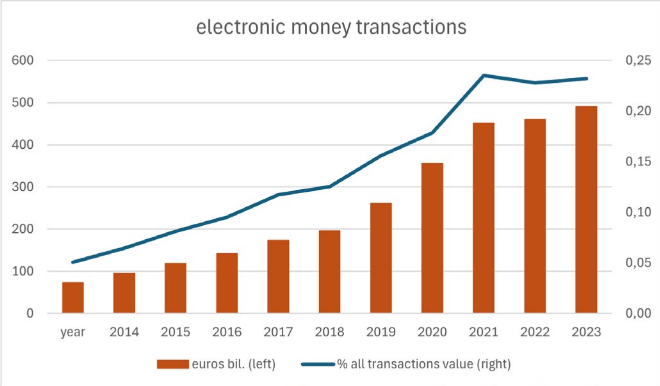
These services existed prior to PSD2, but PSD2 brought them within its scope and subjected them to authorisation. The EU legislators assessed that their ease of use and lower costs – especially compared to credit cards – combined with better fraud protection would make them beneficial to users. Before PSD2, TPPs usually accessed data via 'screen-scraping' without identifying themselves to banks; the latter considered this practice similar to hacking, and therefore blocked TPPs. PSD2 gave TPPs a legal basis to obtain access to a payment account, provided that the payer – who requests the payment – gives consent under SCA. By doing so, PSD2 was intended to develop PIS as an alternative to card payments. Moreover, the EU's support for open banking aims to promote competition and thereby support financial innovation and economic growth.

e-Money transactions in the EU

The EBA keeps the register of payment institutions and electronic-money institutions (the register also lists account information service providers). Currently, there are 737 payment institutions registered (939 historically) and 338 e-money institutions (400 historically).

The ECB provides data on payment transactions. Figure 1 shows the volumes of e-money transactions (in billion euro) and the share of all transactions (including cash withdrawals). The graph shows that, although levels remain relatively low, they increased in the period 2014-2024, together with their share of all transactions.

Figure 1 – e-Money transactions in the EU



Data source: ECB data portal (pem.a); author's calculations.

EUROPEAN PARLIAMENT SUPPORTING ANALYSIS

Revision of Directive (EU) 2015/2366 on Payment Services, EPRS, European Parliament, July 2023.

Second revision of payment services in the EU, EPRS, European Parliament, January 2024.

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European Central Bank, Costs of retail payments – an overview of recent national studies in Europe, Occasional Paper Series, 2022

Preziuso, M., Koefer, F. and Ehrenhard, M., Open banking and inclusive finance in the European Union: perspectives from the Dutch stakeholder ecosystem, EIF Working Paper 2023/94, 2023.

ENDNOTES

[1] The payment services framework is composed of other legislation, directly related or otherwise. For instance, Commission Implementing Regulation (EU) 2019/410 and Delegated Regulation (EU) 2019/411 lay down the information to be provided to the European Banking Authority and establish the central register of payment services. Regulation (EU) 2015/751 governs fees for card-based payment transactions, in particular charge capping. The digital operational resilience regulation (known as DORA) and Regulation 2024/886 on instant credit transfer are two other recently adopted regulations that are relevant to the payment services industry.

[2] The payment services package is part of a broader 'financial data access and payments package' that includes a proposal for a regulation on financial data access – also known as the open finance framework. The framework would establish rules on access to and the sharing and use of certain categories of customer data in financial services.

[3] Note that, although the initial capital constitutes an alternative requirement, no conditions are mentioned in terms of, for example, own funds, after the establishment of the AIS provider.

[4] In a nutshell, SCA consists of the use of at least two elements for identification of the user – the 'authentication'.

[5] The Council adopted its position for the negotiations on 18 June 2025. The mandate emphasises the anti-fraud aspects of the proposal, which it strengthens by including electronic communications service providers such as internet carriers and messaging platforms within the scope of fraud prevention.

[6] See also the executive summary.

[7] The European Payments Council is a not-for-profit organisation representing PSPs in Europe. Its primary mission is to manage the SEPA payment schemes, which are the rules underlying most of the euro credit transfers and direct debits in Europe.

[8] The EBF comprises 33 national banking associations in Europe, representing about 3 500 banks altogether – large and small, wholesale and retail, local and international.

[9] The EIF is part of the European Investment Bank (EIB) and a provider of risk finance to small and medium-sized enterprises (SME) in the EU.

[10] PayTech start-ups are PayTech companies, the payment service-oriented part of the FinTech sector. Note that the set of countries covered by the study includes the United Kingdom.

[11] EuroPA members include Bancomat, Bizum, MB WAY (SIBS), and Vipps MobilePay. The European Payments Initiative (EPI) is another industry-based initiative, backed by 16 European banks and financial services companies to build Wero, a payment solution available in a limited number of countries but aiming to reach the whole of Europe. On 25 June 2025, EPI and EuroPA launched an initiative aimed at payments across the EU.

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