Summary of the eight meeting of the Irish Retail Payments Forum - 7 December 2022

This note summarises the outcome of the seventh meeting of the Irish Retail Payments Forum (IRPF), which was hosted by the Central Bank of Ireland ('the Central Bank') on 7 December 2022.

List of Attendees:

Chair: William Molloy, Director of Financial Operations, the Central Bank.

Banking and Payments Federation Ireland
Central Bank of Ireland
Competition and Consumer Protection Commission
Convenience Stores and Newsagents Association
Credit Union Compliance Centre
Credit Union Development Association
Department of Finance
Department of Social Protection
eCommerce Association of Ireland
Electronic Money Association
Fintech and Payments Association of Ireland
Irish League of Credit Unions
Retail Grocery Dairy and Trade Associations
VISA

Welcome Address

The Chair welcomed the members and emphasized how positive it was to see everyone in person.

The Chair highlighted that the Central Bank had concluded the review of the IRPF, which reflected on the Forum's purpose, composition and performance. The Central Bank has drafted a review report which will be shared with the members. The Chair highlighted the need for the IRPF and its members to evolve in line with the significant initiatives underway in the retail payments ecosystem, such as instant payments, the Digital Euro and the Retail Banking Review - for which a collective view and collective effort will be both valuable and necessary. The IRPF has the potential to play a very important role in the evolution of retail payments in Ireland.

Regarding the Eurosystem's Digital Euro project, the Chair noted that there are were no significant updates to provide since the dedicated IRPF Digital Euro meeting at the end of October. As a general point, the Chair noted that the Central Bank has two roles in terms of the Digital Euro project. Firstly, to participate with our Eurosystem colleagues in the project itself, as part of the relevant Eurosystem committees. And secondly, if indeed a Digital Euro is ultimately launched, the Central Bank will lead the rollout or implementation in Ireland. The IRPF will continue to play a major part in supporting the Central Bank to fulfil these roles.

The Chair opened the agenda and looked forward to some good discussion.

<u>Enhancing the Operational Resilience of the Financial System – Presentation by Jane Woodcock, Head of Function in Governance and Operational Resilience Division, Central Bank of Ireland</u>

Operational Resilience is defined as the ability of a firm, and the financial services sector as a whole, to identify and prepare for, respond and adapt to, recover and learn from an operational disruption. An operationally resilient firm is able to recover its critical or important business services from a significant unplanned disruption, while minimising impact and protecting its customers and the integrity of the financial system.

From the Central Bank's perspective, operational resilience is not limited to the firms, but also the role each firm plays in ensuring the resilience of the wider financial system. For that reason, understanding all the links in the chain of activities that deliver the critical or important business services is key to effective operational resilience.

Operational disruptions can be caused by a myriad of events, e.g. IT failures, cyber-attacks, dependencies on third parties, or weather and natural disaster. Operational Resilience starts with the premise that disruptions will occur and focuses on building capabilities to deal with such events when they materialise, rather than purely focusing on building defences to prevent risk events from occurring. The Central Bank takes very seriously, repeated failures by a firm, to implement resilient practices to ensure that they can continue operations during a disruption.

In terms of threat actors, there are numerous with varying motivations and techniques. Geopolitical motivations appear to be driving a lot of the activity seen at the moment. There is also a lot of activity in the third party provider space, with vary actors looking exploit system vulnerabilities. The Central Bank highlighted the importance of ensuring good cyber resilience practices.

There is a renewed focus on operational resilience, for a number of reasons. The landscape is changing, all firms are becoming increasingly reliant on technology, particularly in the payments sector. The pace of change is also increasing, particularly the number of new firms entering the market with new uses cases and new technologies. This highlighted the importance for the regulators to keep pace with market developments. In this regard, and having taken due consideration of international policy developments in the area of operational resilience, the Central Bank published its Cross Industry Guidance on Operational Resilience, which sets out a holistic approach to the management of a firm's operational resilience.

The Central Bank clarified the difference between operational risk and operational resilience. Operational risk focusses on the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The operational risk capacity of a firm is the total risk exposure that the entity can take while still being able to meet its objectives. A firm's operational risk appetite is usually determined as the amount of losses that the firm is willing to incur in the **normal** (or expected) course of business. Operational resilience focuses on the **unexpected** or not-normal business events and considers the firms tolerance for harm as a result of the non-delivery of its services.

The Central Bank also clarified the difference between business continuity management (BCM) and operational resilience. BCM is the capability of the organisation to continue delivery of products or services at acceptable predefined levels following a disruptive incident. Traditional BCM focuses on single points of failure, such as individual systems, people or processes and is often measured in terms of recovery time objectives or recovery point objectives. Operational resilience goes beyond BCM by determining how all of these single points of failure have the potential to affect the end-to-end delivery of critical/important business services.

The Central Bank has developed a Maturity Assessment which expands on the principles set out in the Cross-Industry Guidance on Operational Resilience. The Maturity Assessment seeks to understand where firms are on the path towards operational resilience and can help firms and supervisors understand and assess their progress in a number of different categories (e.g., Governance, ICT Resilience). The Maturity Assessment is scored using a Maturity Scale from Initial (nothing in place and no plans yet) to Optimised (operational resilience approach has been developed, implemented and tested for effectiveness).

In the interest of time, the Central Bank just touched briefly in cyber-resilience, highlighting the two main programmes it has developed, namely, Ireland's adoption of the Threat Intelligence Based Ethical Red-teaming Framework (TIBER-IE) and Cyber Information Intelligence Sharing Initiative (CIISI-IE), both of which are primarily focussed on the larger systemic firms in the financial sector, however, when the Digital Operational Resilience Act (DORA) is implemented, these will become mandatory for a broader group of firms.

Member Discussion

The Electronic Money Association (EMA) agreed with the need to manage this issue but noted that some of its members have challenges ensuring that their third party providers comply with relevant requirements. EMA questioned whether the Central Bank is considering broadening the scope of guidelines to third party providers, including those that are currently unregulated, as is under consideration in the UK with a potential expansion of the Bank of England's regulatory perimeter.

The Central Bank stated that third parties are high on its agenda. The Cross Industry Guidance on Operational Resilience details requirements for firms to have contractual arrangements and requirements with third parties. One of the key aspects of the guidance is the expectation that when the firms set their impact tolerances, and start to test and assess these tolerances, they need to ensure that a third party is able to deliver in such a way that the firm's impact tolerances aren't breached, particularly if a third party is critical to the provision of the firms service. DORA will bring in oversight for certain third party providers but won't cover all. The direction of travel will likely follow what has happened in the UK but for now the Central Bank plans increased engagement with regulated firms on the topic of third party resilience.

Fintech and Payments Association Ireland (FPAI) highlighted that smaller firms can feel overwhelmed by the requirements and queried whether there are guidelines on the tolerance levels to be applied by firms to third party providers in terms of service levels etc. The Central Bank responded was that it is up to each individual firm to set their impact tolerances, based on what they consider the maximum acceptable disruption is, there is no one size fits all approach, proportionality is key.

Convenience Store and Newsagents Association (CSNA) enquired whether the Central Bank intends to certify firms that are in compliance with the guidance so that retailers can establish which providers have high resilience. CSNA highlighted the negative impact on retails when providers fail to maintain service levels, and called on the Central Bank to provide protection to retailers. The Central Bank advised that is not possible to provide a guarantee that any particular firm will not suffer disruptions that will ultimately impact customers, such as retailers. Firms could perform very sophisticated penetration or resilience tests on their IT infrastructure and ultimately a disruption could still be caused by a simple accident such as an employee tripping up over a wire and unplugging something important. The idea behind operational resilience is that things will go wrong, so the firms need to have the ability to recover. Protection of consumers and businesses was one of the biggest motivations behind developing The Cross Industry Guidance on Operational Resilience.

FPAI noted that there is nothing stopping retailer asking firms if they comply with The Cross Industry Guidance on Operational Resilience, and seeking metrics on service standards, particularly before a retailer takes on a provider. A lot of firms maintain these types of metrics.

The Central Bank noted that the more information consumers and retailers are provided with, the better decisions they can make. So the more we discuss these types of payment issues, particularly at this forum, the better prepared retailers are to ask probing questions about impact tolerances etc., particularly when they are receiving payment services. The Central Bank questioned whether it was practical for retailers to have a second provider as a contingency, but it was noted by CSNA that it was not economical or practical for smaller retailers.

CSNA highlighted the frustration of retailers that are out of business as a result of a disruption, particularly the issues that arise when goods or services have already been provided, e.g. at petrol stations. CSNA stated that 10's of thousands of businesses are reliant on third party providers and that it is important to ensure that there is no barrier between the retailers and their customers.

The Central Bank appreciated the impact of the issues highlighted by CSNA and stressed that enhancing operational resilience of the sector remains a key strategic priority for the Central Bank.

VISA questioned to what extent the Central Bank will test the firm's operational resilience plans. The Central Bank confirmed that the focus for next year is to collaborate with the firms to develop their frameworks, and will not conduct assessments/inspections until the market reaches maturity in this area. However, the Central Bank does expect the firms to conduct their own internal testing and mapping exercises as they develop their frameworks.

European Commission Proposal on Instant Payments

Banking and Payments Federation Ireland (BPFI) provided an overview of the European Commission's ('the Commission') recently legislative proposal on instant payments, which has been developed due to the low update of instant payments across the EU. The proposal contains four main pillars:

1. Mandatory uptake of instant payments by Payment Service Providers (PSP's) that offer regular credit transfers (scope of current proposal is that payers can make an instant payment on all channels that offer other credit transfers, e.g. online, mobile, paper, single payments & bulk files etc.)
2. Pricing: Capping the price of instant payments in euro – to no more than a normal credit transfer in euro.
3. Fraud – IBAN-name matching: In an effort to reduce fraud – the payer's PSP would need to notify the payer of discrepancies between the account number (IBAN) and name of the payee before they authorise an instant payment. Allowing users to proceed with the transaction or abort. Payers can also opt out of the service.
4. Sanctions: Daily sanctions screening for users instead of transaction screening – with the goal of reducing false positives that cannot be manually addressed in time.

In terms of the proposed timelines contained in the proposal, BPFI drew attention to the fact that the document is still at the proposal stage, which will have to go through the legislative process including negotiations, which takes time. There is no official timeline for this process to be completed, and the scope and timelines contained in the proposal could change. However, the estimate for publication is 12 months, from which point the below timelines and actions need to be adhered to by PSPs:

Euro area PSPs

6 month timeline for:

- Banks to receive instant payments
- All involved PSPs to implement pricing in line with regular credit transfers
- All involved PSPs to implement entity-based sanctions screening

12 month timeline for:

- Banks to send instant payments
- All involved PSPs to support IBAN-name checking

Non-Euro area PSPs

30 month timeline for:

- Banks to receive instant payments
- All involved PSPs to implement pricing in line with regular credit transfers
- All involved PSPs to implement entity-based sanctions screening

36 month timeline for:

- Banks to send instant payments

- All involved PSPs to support IBAN-name checking

BPFI noted the significant scale of the required implementation project, but also outlined their support for the proposal as the ability to offer instant payments will be a positive development for its members, particularly from a consumer perspective. BPFI will continue working through the various elements of the proposal with its members to understand the main concerns and challenges and this will be fed back during discussions with the Department of Finance and the Central Bank. However, BPFI called for all relevant PSPs to start progressing their implementation projects and get things moving, particularly given the proposal timelines.

Member Discussion

Department of Social Protection (DSP) enquired about the readiness of the three main retail banks in Ireland. BPFI responded that the Banks were aware of the potential for the proposal for some time but were surprised by some elements contained within the proposal e.g. the IBAN name checking. 18-24 months is the estimated timeframe to implement a project of this scale.

DSP raised concerns about how the IBAN and name checking will work on bulk payment files, such as the social welfare payments files.

EMA stated that they intend to lobby that name checking should be applied on a risk basis, for example, that it should only be applied to a new payee, and not for all transactions.

The Central Bank highlighted that although certain elements of the proposal may change, the core elements, i.e. the legal requirement to send and receive instant payments will become a reality, and called on the banks to start planning for their implementation projects now to give them with the best opportunity to meet the Commission's deadlines.

BPFI agreed and confirmed that they are actively engaging with their members to work through the proposal and support the banks as they prepare for their implementation projects.

EMA highlighted that 24 months for a pan-European implementation of the proposal is quite ambitious. EMA also enquired how the sanction screening of the customer base would work in practice, e.g. would the entire database have to be checked every day? This could have significant implications on resources.

Department of Finance confirmed that they are attending a Commission working group with other Member States to work through the proposal. They advised that all of the questions raised during this IRPF meeting have also been raised by other Member States, particularly around how the various elements of the proposal will work in practice (IBAN checks/sanctions screening). These discussions are ongoing and more detail will be provided as the proposal progresses.

It was agreed that this item would be a recurring item on the agenda of the IRPF going forward.

Retail Banking Review Update

Department of Finance gave brief update on the Retail Banking Review that was recently published. The Minister announced back in November 2021 that the review would be conducted, which was deemed necessary due to the amount of change that has occurred in the sector over the previous decade, such as the change in economic circumstances, Brexit, advancements in technology, branch closures and bank exits. Many of these changes were also accelerated by the pandemic.

In terms of the review process, this included a commissioned survey of 1,500 consumers to ascertain their experience and perceptions of the retail banking sector in Ireland. A report of the survey findings was published on 16 May 2022. A public consultation was also carried out, which was launched at the Retail Banking Review dialogue event in Tullamore on 16 May 2022. Over 90 submissions were received and reviewed.

The final review report was published on 29 November 2022, and included a number of recommendations, of which the following are most relevant to the IRPF:

- Legislation will be developed, which will require banks to provide reasonable access to cash.
- Independent ATM Deployers (IADs) and Cash in Transit (CIT) providers will also be made subject to regulation by the Central Bank.
- Department of Finance will lead the development of a new national payments strategy in 2023.
- Called for the implementation of a number of consumer protection initiatives relating to consumer charges, consumer service standards and greater notice periods for changes in branch services and/or closures.
- Highlighted ongoing work between the Department of Finance and the Central Bank to tackle IBAN discrimination

Member Discussion

CSNA welcomed the review and praised the report, which they felt met most of the objectives it set out to achieve. In terms of access to cash, CSNA stated how shocked they were that we had arrived at a position whereby unregulated ATM providers and CIT providers had obtained such a critical role in the market. CSNA is supportive of the proposed legislation that will require certain classes of firms, sectors or sub-sectors to accept (to an appropriate level) the acceptance of cash, as has been done in countries. However, CSNA highlighted that the proposal on access to cash must be carefully considered, particularly in the context of the costs incurred by retailers to provide cash services.

Department of Finance noted that these issues will be considered in detail over the coming year, as the heads of the proposed Bill are drafted.

CSNA noted that any public consultation that the authorities may undertake must be a real consultation, truly open to all stakeholder, and not just populated with pre-determined questions.

The Retail Grocery Dairy & Allied Trades Association (RGDATA) noted that more qualitative research and data is required to inform decisions on these types of issues, e.g. in terms of cash usage, who is using cash and what are they using it for? RGDATA also noted that a lot of their members are the last providers of cash services in their respective communities, particularly as more bank branches go cashless, and this service is very costly and should be funded.

The Credit Union Development Association (CUDA) agreed with the issues raised regarding the costs of cash provision, particularly in communities were branches have closed, and called for more equal burden sharing across all relevant financial institutions. It shouldn't be left to a diminishing number of cash providers like Credit Unions and retailers.

Department of Finance noted that there is a requirement for banks to ensure the current level of service (based on December 2022 levels) continues to be offered whilst the legislation is developed.

The Chair highlighted the need for cash to co-exist with other means of payments, such as instant payments, and stated that the detail of how this will be achieved and how the challenges will be addressed, must be considered as part of the proposed national payments strategy. This should include discussions around what is reasonable for the various stakeholders to expect in terms of service provision and the cost of specific services, but also what is realistic. The Chair noted that IRPF members will have a key role to play in terms of framing those discussions.

Euro Retail Payments Board Update

The Chair introduced the Euro Retail Payments Board (ERPB) agenda item, and outlined the intention to keep these updates as a regular agenda item. The Chair noted that the ERPB is the equivalent forum at a European level and that it is important for IRPF members to be aware of the discussions that are taking place in that context.

Department of Finance provided some background information on the ERPB, which is a high-level strategic body tasked with fostering the integration, innovation and competitiveness of euro retail payments in the European Union. The ERPB was launched on 19 December 2013 and is comprised of PSP representatives, banking representatives, payment institution and e-money institution representatives, retailers, business co-ops, national public administrations, five National Central Bank on a rotational basis and the Commission. Department of Finance attends as Assistant Secretary and therefore reports back on each meeting, which take place twice a year.

Department of Finance gave a brief overview of the November 2022 meeting, which discussed:

- The Commission update on retail payments
- The Eurosystem's Digital Euro project investigation phase

- The Commission’s proposal on instant payments
- The SEPA Payment Account Access (SPAA) Scheme
- The ERPB workplan.