Appendix 1

Payment services for which information must be provided under the Act governing the information-reporting requirement of payment service providers (Laki rajat ylittäviä maksuja koskevasta maksupalveluntarjoajien tiedonantovelvollisuudesta (659/2023)) include credit transfers, direct debiting, payments by credit cards and debit cards, money remittances (= international money transfers), and e-wallet services. This appendix provides descriptions of the different methods of payment that are relevant from the perspective of the information-reporting requirement. The descriptions are merely examples.

Credit transfer

A credit transfer usually involves three intermediaries:

- The bank where the payer has its bank account.
- The bank where the payee has its bank account.
- The bank's clearing service and/or settlement service. The purpose of these services is to assist banks in establishing and/or settling among themselves a liability arising from transfers of funds between them. Alternatively, PSPs can transfer funds and settle the debt incurred directly with each other or using other intermediaries.

The information flow for a credit transfer is as follows:

1. The payer initiates the payment by giving the payee's details to its bank and requesting it to transfer a certain amount of funds to the payee's bank account.

2. The payer's bank makes the credit transfer on the basis of the detailed information that the payer gave, and then sends this information on to the payee's PSP in order to have the funds transferred to the payee's bank account

3. The payee's bank verifies the information provided by the payer's bank in the credit transfer (verifying that a bank account is in existence, etc).

The stage when an amount of money is actually transferred from one PSP to another takes place as follows (the settlement stage):

4. The payer's bank will debit the amount to be transferred from the payer's bank account.

5. 5. The amount of the payment is credited by the payee's bank to the payee's account immediately after the amount is transferred to the payee's PSP, so that the payee receives the funds within the required time frame (usually one business day for intra-EU credit transfers).

Direct debit

Direct debits have the same active entities as a credit transfer. The main difference between direct debits and credit transfers lies in the fact that direct debits are payee-initiated. This is based on a mandate given by the payer.

The information flow in the direct-debit transaction is as follows:

1. On the basis of a mandate from the payer, the payee makes a direct-debit request for transfer of funds from the payer's account to the payee's account.
2. The payee's PSP first creates the request, and then sends it on to the payer's PSP for execution.
3. The payer's PSP will verify that the requested funds are available and that the information contained in the request is correct. If so, the payer's PSP will charge the direct-debit payment from the account on the due date.

The stage when an amount of money is actually transferred from one PSP to another takes place as follows (= the settlement stage):

4. The payer's PSP debits the funds to be transferred from the payer's account on the due date.
5. The payee's PSP will transfer the amount of the payment to the payee's account immediately after that amount is transferred to the payee's PSP in order for the payee to receive the funds within the required time frame.

Money remittance (= money transfer**)**

One particularity of the money remittance, compared to other forms of payments, is the possibility to transfer funds without the payee having to hold a payment account.

Typically, the transfer/remittance involves 2 entities:

- The money remittance institution which will be used by the payer to transfer funds to the payee.
- The disbursement partner, which is a second money remittance institution which receives the funds and makes them available to the payee.

The related information flow is as follows:

1. The payer initiates a money transfer request by providing his PSP with information on the payee and the payment transaction.
2. The payer's PSP (a money remittance institution) creates the appropriate request and sends it to a disbursement partner, established in another Member State or in a third country or territory.
3. The disbursement partner (the payee's PSP) verifies and confirms that the information contained in the request is correct.
4. Finally, the disbursement partner makes the funds available to the payee.

Payment by card

Card payments typically involve 3 entities:

1. The card scheme provider establishes the rulebook applicable to the card. The scheme provider can be a PSP if it distributes the cards itself, or provides other payment services linked to the card (such as acquiring services).
2. The issuer is a PSP that offers a payment card (debit or credit card) for the use of the payer and executes payment transactions on behalf of the payer.
3. The acquirer is the PSP which receives payments on behalf of the payee. The acquirer will aggregate all payments made over a given period of time and transfer the sum of those payments to the payee.

Card schemes can be divided into 3-party and 4-party card schemes. Within the 3-party scheme, the roles of card scheme provider, card issuer and the acquirer are all the different roles of the same entity. Accordingly, in 3-party card payments, the card scheme provider acts as a card issuer and an acquirer and is directly linked to both the payer and the payee. By contrast, 4-party card payments require that the functions of card issuer and card acquirer are separate, with one linked to the payer and the other to the payee. This way, in a 4-party card scheme, the provider, the card issuer and the commercial acquirer are all different entities. Because the card scheme provider does not itself issue or acquire cards, it does not provide payment services and is therefore not obliged to provide information.

Technical service providers are entities contracting with acquirers or merchants that provide the services necessary for the processing of card payments, such as the provision of terminal equipment or websites enabling the recording of card data and the initiation of the payment process (the payment initiator). However, the technical service providers have no information-reporting requirement unless they enter into possession of the funds to be transferred at any stage.

E-money

The service providers in the e-money sector conduct their business in different ways. However, the main business models are the e-wallet on the one hand, and the e-voucher/card on the other hand.

<u>The e-wallet</u>

The provider of the e-wallet offers a form of virtual online wallet or e-wallet to the payer. The wallet can be used for paying for various goods and services. When the payer has the e-wallet, it can be financed through card payments into it or through transfers of money from the payer's bank account into it. Funds transferred to the e-wallet can be used to make payments in the e-money provider's infrastructure.

The e-wallet provider provides payment services not only to the payer, but also to the payee, who must register in the provider's system in order to receive payments in electronic money. Other PSPs are also involved in e-money payments, but they act only as funders of the re-wallet or as destinations to which the withdrawn amounts can be transferred. Accordingly, the other PSPs do not participate in the electronic payment transaction between the payer and the payee, which is exclusively managed by the e-money provider.

The information flow relating to the e-wallet is as follows:

1. The payer initiates the e-money transaction by giving the details of its electronic account on the payee's website.

2. The e-wallet provider receives and validates the transaction. If the validated data are accurate, the e-wallet provider will transfer the funds from the payer's e-account to the payee's e-account.

Once this is done, the transfer of funds in the electronic money provider's system will be completed, and no settlement is needed because the e-money provider is the only participant in the payment transaction. However, if the payer's e-account was not sufficiently funded, it is necessary for the provider, prior to handling the payment, to request and settle these funds from the funding sources registered by the payer:

3. The e-money provider uses the information the payer provided when registering, to request a transfer of funds from the payment service provider responsible for the payer's funding source (such as a credit transfer or a card payment). This gives rise to a separate transaction between the payer and the payee's e-wallet provider.

4. In the same way, the payee may decide to withdraw funds from his or her e-money account, to his or her bank account or to another payment account. This, too, gives rise to a separate payment transaction where the provider of the e-wallet is in the role of the payer, and the merchant is the payee. The payee's PSP (i.e. the payee's bank) has the information-reporting requirement with regard to this separate transaction.

<u>The electronic voucher</u>

Electronic vouchers constitute a harmonised method of electronic payment, which is often a prepaid card. The payer can buy these cards from selected distributors or resellers and make payments via the e-money provider's infrastructure without having to provide any financial information. The providers of e-vouchers have no direct relationship with the payer. The providers do not ask the payer to register with the provider's systems for getting the right to use the service. Instead, the providers of e-vouchers have a direct relationship only with the payee, who nevertheless needs to receive payments into the payee's electronic account.

The information flow of the electronic voucher is as follows:

1. The payer initiates the e-money transaction by introducing the details of its e-voucher on the merchant's website.

2. The e-money provider validates the information introduced by the payer and confirms the transaction. Once this is done, the provider will credit the payee's e-account with the amount of the transaction.

After that, the transfer of funds in the e-money provider's system is completed, and no settlement is needed because the e-money provider is the only participant in the payment transaction.

However, several other operations generally take place outside of the e-money provider's systems:

3. The payer buys an e-voucher from a selected distributor which has been authorised by the e-money provider to distribute its payment methods. The e-money provider is aware that a voucher was sold at a given location. When buying a voucher, the payer normally conducts a payment transaction to pay the retailer for it. Depending on the business model used, these funds go to the

retailer or they may go directly to the e-money provider in charge of the vouchers. In both situations, there is a separate transaction occurring (before the payer uses the e-voucher to pay for goods or services), where the retailer or the provider of the voucher will be the payee.

4. As with the e-wallet, it is possible that the payee decides to withdraw the funds from the payee's electronic account. Accordingly, this gives rise to a separate payment transaction where the provider of e-money is the payer and the merchant is the payee. The payee's PSP has the information-reporting requirement with regard to this separate transaction.