

## Krzysztof Rybiński: SEPA and the payment system in Poland

Speech by Mr Krzysztof Rybiński, Deputy President of the National Bank of Poland, at the 13th Bank Forum "Regulatory changes in European banking – outcomes for banks and the economy in Poland", Warsaw, 14 March 2007.

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Welcome to the session devoted to the SEPA project – Single Euro Payments Area – in the context of the Polish payment system.

When you google SEPA, the first website on the results list is the site of the Scottish Environment Protection Agency, but what closely follows is the ECB's website on SEPA (Single Euro Payments Area). The pagerank of both these sites is 6, which means that they are important in the Internet.

Since the introduction of the euro banknotes and coins in 2002, consumers have been able to make cash payments throughout the euro area from a single purse using a single currency. The SEPA project represents the next major step towards closer European integration; it will allow consumers to make cashless payments throughout the euro area from a single account under the same basic conditions, regardless of their location.

In 2002, the banking industry took up this challenging project by creating the European Payments Council (EPC). The EPC is defining the new rules and procedures for euro payments. To do that, it has involved not only the stakeholders in the euro area, but also those in other countries of the European Union, Poland obviously included, as well as Iceland, Liechtenstein, Norway and Switzerland. Communities outside the euro area will thus have the opportunity to participate in euro payment systems, and will be able to adopt SEPA standards and practices, thereby contributing to the establishment of a single market for payment services.

The EPC plans first SEPA products to come on the market at the beginning of the next year. Therefore, today's Bank Forum is an excellent opportunity for an in-depth discussion on the role and place of the Polish payment infrastructure in the SEPA world. Ladies and Gentlemen, I am pleased to present you the discussants of our panel, in alphabetical order:

**Mr. Ryszard Drużyński, Vice President of Raiffeisen Bank Polska,**

**Mr. Krzysztof Kalicki, President of the Management Board of Deutsche Bank Polska,**

**Mr. Ronnie Richardson, President of the Management Board of Kredyt Bank,**

**Mr. Witold Zieliński, Vice President of the Management Board of Citibank Handlowy.**

I would like this discussion to be broad and dynamic, that's why feel free to join it.

First, I would like to draw your attention to the fact that changes ahead of us are needed to move towards a more integrated payments market, which will bring substantial economic benefits. The SEPA will not only introduce more comparable services, but will also foster competition and drive innovation. Institutions that are able to embrace new technological developments and offer customers additional services will benefit from this new integrated market. In a competitive and integrated economy, a forward-looking view is required so that retail payments have a level of safety and efficiency that is comparable with the best national systems in place today.

Undoubtedly, this approach will considerably influence the balance of power on the European market of payment services, as well as on our local market. The proposed mechanisms will favour consolidation processes in the sector of payment infrastructure providers, and possibly also in the banking sector itself.

**SEPA stands for (S)Speed, (E)Efficiency, (P)Positiveness and (A)Automatisation.** It is important that the SEPA project is not viewed just as a "one-shot operation", but rather as a continually evolving project that fosters European integration, seeking to improve all aspects of the euro area retail payments market on an ongoing basis. The SEPA will also make a notable contribution to the so-called Lisbon Agenda, which aims at fostering competitiveness and ensuring the continuous development of the European economy. The National Bank of Poland, as a forward-looking and acting institution, which supports development of the Polish banking sector, has been participating, for two years now, in the TARGET system, and is now proceeding with intensive preparation for the transition

to the new platform – TARGET2. It is worth reminding that this initiative has led to a considerable drop in charges for cross-border transfers in the euro under correspondent banking, although for the time being the drop is of benefit mainly to banks, and hardly at all to clients.

SEPA consists of the following elements: the single currency, a single set of euro payment instruments – **credit transfers, direct debits and card payments**, efficient processing infrastructures for euro payments, common technical standards, common business practices, a harmonised legal basis, and ongoing development of new customer-oriented services.

I am sure than many of you are wondering "Why SEPA?". To answer this question we have to think like Europeans.

Currently, the euro area economy is unable to fully exploit all the benefits of the Monetary Union. Customers face difficulties when making euro retail payments to other euro area countries, as these payments often turn out to be more time-consuming. As long as this is the case, the euro cannot be viewed as a fully implemented single currency.

Despite the introduction of the euro in 1999 and the development of TARGET, the common large-value payment system for euro, low-value electronic payments (i.e. retail payments) continue to be processed differently throughout the euro area. Overall, the number and variety of payment instruments, standards and processing infrastructures for retail payments has not really changed since the introduction of the euro. In such an environment, to facilitate the flow of payments, companies with a substantial number of cross-border payments have to maintain bank accounts in all the countries in which they do business.

**Imagine enterprises in Poland had to keep bank accounts in each voivodship in order to operate efficiently, and each voivodship had a different settlement system and different legal regulations. Would enterprises in such a situation be able to operate as efficiently as they do now? What would it mean for the costs and competitiveness of Polish banks and prices of payment services?**

This fragmentation not only affects cross-border payments but also national euro payments, as it prevents innovation and competition on the euro area level. Payers and payees may also be subject to different rules and requirements depending on their country of origin. The creation of a common framework will create the opportunity for innovative payment solutions to be offered irrespective of national borders.

The goal of SEPA is thus to create an integrated, competitive and innovative retail payments market for all non-cash euro payments, which, in time, will be conducted entirely electronically. As such, SEPA will benefit all customers.

New payment instruments will be available throughout the euro area, making life easier for both consumers and business. Consumers will need only one bank account. From this account, they will be able to make euro credit transfers and direct debit payments anywhere in the euro area as easily as they make national payments. They could, for instance, pay rent for children studying abroad, pay for a holiday home, or pay for services provided by European companies, e.g. mobile telephone services, insurance companies, utilities, etc. People who live, work or study outside their home country will no longer need one bank account at home and another one abroad.

The use of payment cards will be more efficient, as consumers will be able to use the same card for all euro payments. This will reduce the necessity for people to carry cash. Innovative services can be offered to consumers irrespective of national borders. The long-term goal of the banking industry is that the SEPA payment instruments will only be used in electronic form. Payments can then be easily combined with other e-services in the case of both individual and corporate clients. These include e-invoicing, mobile or internet payment initiation, airline e-tickets, credit advice or e-reconciliation. As a consequence, consumers will spend less time handling payments. Everything will be easier, faster and cheaper ... in the long term.

Payment cards are becoming a favourite payment instrument with consumers, and are increasingly replacing cheques and cash payments. The use of cards is thus expected to grow in the future. Thanks to the creation of a single euro payments area, acquirers will be able to process all SEPA-compliant card payments, even across borders. In the SEPA environment, merchants will be able to choose any card payment processing entity in the euro; this will increase competition and reduce costs.

Point-of-sale terminals in the euro area will become increasingly standardised. As a consequence, there will be a wider choice of terminal providers, and merchants will be able to accept a wider range of cards with a single terminal. The increased competition between payment card systems should also drive down fees.

This is a vision of anticipated benefits for an integrated Europe, but the questions I would like to ask the panelists and all of you today are as follows: Will SEPA reinforce the competitiveness of Polish entrepreneurs?; How fast should we act?; What roles are there to be played and who should play them so as to ensure the success of the Polish economy, enterprises and consumers in the SEPA era?

It seems to me that these are the key questions to be answered now so that Forum SEPA Polska could develop, in the months to come, an optimal strategy for launching new payment products in the Polish market.

Let's also have a look at our own local situation. By providing new payment instruments and euro area-wide infrastructures, SEPA will ensure that banks expand their business and compete on a euro area level, as any bank can offer its services more easily to any individual in the euro area. Banks can also expand their business by offering their customers value-added services on top of the SEPA products.

It is worth referring here to Regulation No 2560/2001 of the European Commission, which established the principle of equal charges for cross-border payments and comparable domestic payments within the EU, which in turn has created an imbalance between bank fees and costs of cross-border payments. This imbalance can only be overcome if the handling of cross-border payments is reorganised to become as efficient and inexpensive as the handling of national payments, which is the primary goal of SEPA.

An aspect which deserves particular attention in the discussion on SEPA is the harmonisation of the law within the payment area. The proposed Payment Services Directive (PSD) establishes the necessary legal framework for SEPA payments and will also apply to existing national payment products.

The aim of the Directive is to harmonise the market access requirements for non-bank payment service providers. This will create a level playing field with enhanced competition in national markets.

The Directive will provide clarity and certainty with regard to the core rights and obligations of users and providers of payment services. It will also provide the necessary legal framework for SEPA, as it will harmonise existing, and differing, national legal requirements.

Please note that the Eurosystem sees SEPA as "an integrated market for payment services which is subject to effective competition and where there is no distinction between cross-border and national payments within the euro area." Over the long term, all euro area payments will become domestic, reaching a level of safety and efficiency that is at least on par with the best performing national payment systems today.

Let us consider together the potential benefits of SEPA for the Polish market participants. The following questions seem to be of particular importance here:

- What's the role and place of Polish payment infrastructure in the SEPA world?
- Will SEPA increase the consolidation of the Polish banking sector?
- Will SEPA reinforce the competitiveness of Polish entrepreneurs?
- What roles are there to be played and who should play them so as to ensure that SEPA contributes to the success of the Polish economy and increased consumer satisfaction?
- What benefits may the Polish payment market participants gain before Poland joins the euro area?

Now, let me ask the Presidents to take the floor.