

## **Fabio Panetta: SEPA and its repercussions for Italy's payment system**

Welcoming address by Mr Fabio Panetta, Deputy Director General of the Bank of Italy, at the SEPA Conference, organized by the Bank of Italy, Rome, 9 December 2013.

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I would like to thank all the authorities, market players, associations and analysts for taking part in today's meeting.

SEPA plays a key role in the completion of the European financial system, by ensuring the provision of innovative, reliable and affordable payment services to market players and users. National and European authorities, the banking and financial sector, trade and consumer associations, and the public sector are all involved in the project. The Bank of Italy has committed resources and energies to drive this innovation forward.

SEPA plays a major role in European integration, involving as it does a myriad of stakeholders representing very different activities, interests and levels of technological development. The objective is not just to introduce new payment schemes and new procedures, for the project will also bring about positive changes in the habits of European citizens and in the organization and work methods of banks, firms and the public sector.

Although considerable progress has been made in recent months, much remains to be done. The project must continue to advance apace, if necessary with a sharp spurt in the last furlong, which will probably also be the most arduous. The work already completed and the results achieved to date justify a cautious optimism in view of the end date of 1 February 2014.

The SEPA is important on two levels: it heightens integration and competition in the retail payment market and it fosters an efficient and reliable payment system. These objectives are shared by the authorities and business milieus.

The structure of the project, its aims and benefits are clearly and exhaustively described in the publication the Bank has distributed today;<sup>1</sup> the areas covered range from the standardization of credit transfers and direct debits to the adoption of harmonized schemes for payment cards. The technical solutions adopted in the past at the national level are being adapted to the new SEPA framework within clearly defined limits in order to avoid perpetuating the fragmentation among member states.

The context in which SEPA operates is based on two key elements for the evolution of the payment system: legislation and technology.

Harmonized European legislation on payments, centred around the Payment Services Directive (PSD), is fundamental for the success of SEPA. The proposed new Directive, PSD2, will further converge national legislation and boost competition in the market for payment services, improving the transparency and reliability of the products offered to firms and the public.

By standardizing the payment instruments made available by SEPA and employing advanced technology for e-commerce and mobile and Internet communications it will be possible to create a more modern payment market, in line with European and Italian policies to increase the spread of information technology.

SEPA will bring substantial benefits to all concerned. Firms will be able to make and receive payments via a single account at any European bank. Using the ISO standard, which can be

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<sup>1</sup> See "La SEPA e i suoi riflessi sul sistema dei pagamenti italiano", *Tematiche istituzionali*, Banca d'Italia, November 2013 (<http://www.bancaditalia.it/pubblicazioni/temist/sepa-riflessi-sistema-pagamenti/testo.pdf>).

integrated with banks' own management software, will foster innovation in several ways, from integrating the collection process to rationalizing accounting procedures. There will be significant advantages for small firms as well.

SEPA will also facilitate the use of Internet and innovative communication systems such as tablets and smartphones, offering consumers flexibility in the use of different means of payment at low costs. Users' payments and collections with firms and the public sector will improve with the use of electronic instruments.

From the banks' point of view, retail payment services not only account for a large part of total expenditure and revenue,<sup>2</sup> but they are an important route to customer loyalty through the provision of high-quality services at affordable prices. Although European market integration may entail a loss of position in the very short term, in a longer perspective it will enlarge the potential supply and open the way for advanced technology products. Similar benefits await non-bank providers of payment services and managers of retail payment systems who are called on to create a Europe-wide network.

I would like to make a final comment on the importance of SEPA for Italy. Non-cash means of payment are used less in our country than elsewhere in Europe. Paper-based payment instruments are still widely employed, although they are more costly for issuers and less secure for users.

The characteristics of the Italian market and the payment habits of the population reflect the structural characteristics of the productive system, such as the limited use of more advanced means of communication, the small average size of commercial firms, and the rigidity in the supply of innovative services. In many areas of the country this backwardness is aggravated by the size of the underground economy and in some cases by widespread illegality.

Modernizing Italy's payment system and integrating it in the wider European market will bring benefits far beyond those directly deriving from the introduction of new instruments and new technical standards. The changes now under way, boosted by SEPA, will bring clarity and transparency to business relations throughout the 4

economy and not just in the payment sector. Market players will be encouraged to revise their organization and code of conduct. The public sector will have the tools and procedures they need to improve payment transactions with firms and the public. In this way, the creation of a modern, competitive and reliable payment system in Italy will help to build a more efficient and transparent productive system.

In the 1990s, following the recommendations of the White Paper on Payment Systems in Italy, we successfully undertook a broad reform of interbank settlement procedures to bring the country into line with the most advanced European standards. Today, we must take the opportunity offered by SEPA to improve the supply of payment services in Italy, with benefits for the public, firms and the public sector.

This is the route we should follow. I hope that this conference will yield suggestions, observations and ideas for mapping the future development of Italy's payment system as part of the broader growth and modernization of Italy in Europe. Thank you.

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<sup>2</sup> Payment services represent 15 per cent of banks' total operating costs.