

Yves Mersch: 2017 - a decisive year for innovative retail payment services

Keynote speech by Mr Yves Mersch, Member of the Executive Board of the European Central Bank, at the French Payments Committee conference on "Technological innovations in payments and beyond", Bank of France, Paris, 6 January 2017.

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Introduction

Between Christmas and New Year, many TV programmes and magazines looked back at events, cultural and political, that shaped 2016. Focusing on the field of payments innovation, I will also begin with a very short review of the events of last year. But the main part of my speech will be dedicated to looking ahead. In particular, I will discuss why 2017 is going to be a decisive year for the success of innovative retail payments services in Europe.

In 2016 the foundations were laid for pan-European innovative payment solutions. In the scheme layer, the European Payments Council (EPC) finalised the framework for pan-European instant payment solutions. The instant payment scheme is the basis for the Europe-wide implementation of instant credit transfers, as well as the launch pad for other innovative payment solutions, such as person-to-person mobile payments. Fostered by the Euro Retail Payments Board (ERPB), work is under way not only on instant payments and mobile payments, but also payment initiation services and e-invoicing, among other things.

In the clearing layer, (some) automated clearing houses (ACHs) agreed and committed to a pan-European approach for clearing instant payments in euro. This approach consists of (i) harmonised risk management, (ii) a uniform settlement procedure in TARGET2 and (iii) fair and open access policies to facilitate interoperability.

In the settlement layer, the Eurosystem launched an investigation into providing a pan-European instant payment settlement service in central bank money.

With these foundations in place, **2017 will see decisive action** in all three layers. First, **payment service providers will have to deliver instant payment solutions to the end users**. Second, **most ACHs will be ready to launch their instant payment clearing systems**. And last but not least, the **Eurosystem will decide on whether or not to provide a pan-European instant payment settlement service in central bank money to payment service providers**.

I would now like to look more closely at two specific areas of action:

1. how the Eurosystem – in its role as catalyst – will continue to drive European retail payment integration by fostering the provision of pan-European instant payment solutions, person-to-person mobile payment solutions and payment initiation services by the industry in 2017;
2. how the Eurosystem – in its role as operator – could advance the retail payments market by offering instant payment settlement services in central bank money.

1. Fostering European retail payments integration – deliverables the Eurosystem expects from payment service providers in 2017

For the Eurosystem, a major challenge of digitalisation in the payments industry is ensuring that the introduction of innovative payment solutions does not (re)introduce fragmentation into the European market. It is understandable that, initially, most innovative retail payment solutions delivered by the industry tend to focus on national markets. However, I want to be very clear here and emphasise that **innovative solutions that do not have the potential to extend their**

reach at pan-European level are not in line with the expectations of the Eurosystem and the goals of the Single Market.

The three most important areas for improving the user experience in retail payments are instant payments, (person-to-person) mobile payments and payment initiation services. In conjunction with the European legislator and the ERPB, the Eurosystem, in its role as catalyst, fosters pan-European developments in all three areas.

(1) Instant payments

In line with the expectations of the ERPB, the Eurosystem encourages ***payment service providers to make instant payment solutions in euro available to end users at a pan-European level from November 2017.***

(2) (Person-to-person) mobile payments

Aligned with the timeline for the implementation of the instant payment scheme, the Eurosystem expects the ***launch of a standardised look-up service that allows (person-to-person) mobile payments using the mobile phone number of the payee as a proxy for the IBAN.*** This service should be launched by the end of 2017 and should not be restricted to national IBANs.

(3) Payment initiation services

In line with the ERPB, the Eurosystem expects the market to work on the definition of a common set of technical, operational and business requirements for the development of an integrated market for payment initiation services. These requirements will be based on the provisions of the Payment Services Directive and the related Regulatory Technical Standards (RTS). They should become available in 2017 so as to leave sufficient time for the relevant market actors to implement them by the time the RTS apply (i.e. towards the end of 2018).

2. Advancing the retail payments market by offering instant payments settlement services in central bank money

The provision of innovative retail payment solutions does not depend only on the payment service providers, but also on the availability of a safe and efficient underlying market infrastructure that can process instant payments across Europe. Payment service providers should have the choice to either clear their instant payments through ACHs or use a settlement service for instant payments.

With regard to the clearing of instant payments, the Eurosystem supports industry efforts to establish interoperability between ACHs. In its catalyst function, the Eurosystem obtained the commitment of the clearing industry to adhere to a number of conditions, facilitating the processing of instant payments. As operator, the Eurosystem is enhancing the TARGET2 functionalities as relevant to address ACHs' needs by November 2017. These steps need to be complemented by concrete interoperability arrangements between ACHs. In this regard, the Eurosystem encourages the industry to establish operational links between ACHs by the November 2017 deadline.

With regard to the settlement of instant payments, the Eurosystem is investigating the possibility of offering a settlement service for instant payments in central bank money. Instant payments require gross, real-time processing. The proposed settlement service, which is called TIPS (TARGET Instant Payment Settlement), would leverage the pan-European nature of TARGET2 to offer settlement of instant payments directly and without credit risk.

Three days from now, on 9 January 2017, the Eurosystem will launch a market consultation on

the user requirements for the centralised settlement service. I would like to take this opportunity to unveil some of the features the new service could have.

First, **TIPS would help participants to comply with the SEPA Instant Credit Transfer (SCT Inst) scheme** by providing pan-European reachability. Common functionalities across jurisdictions would ensure harmonisation of practices and market integration in the settlement of instant payments.

Second, participation in TIPS would follow the same criteria as participation in TARGET2. **It is not intended to change the criteria for access to central bank money.** Those who do not have access to central bank money (or those who may not wish to open a TIPS account) may establish contractual agreements with a TIPS participant to use the participant's TIPS account for the settlement of instant payments. They may also be authorised by the participant to instruct directly on this account.

Third, it goes without saying that TIPS would respect the principle of full cost recovery. It is anticipated that **the price per transaction would not exceed 1 euro cent, with the aim of ultimately reaching a level of around 0.5 euro cent.**

Fourth, market participants would be able to **connect to the service via a network service provider of their choice**, as long as this network vendor meets the criteria that the Eurosystem will establish.

The Eurosystem is committed to taking a decision in June 2017 on whether to develop the service. TIPS could commence operations in 2018.

Conclusion

To conclude, we can look forward to 2017 being a year of decisive action for innovation in retail payments. The main deliverables at the consumer end of the payments chain are pan-European instant payment solutions and a service for (person-to-person) mobile payments using the mobile phone number as a proxy for the IBAN. In the payment service provider domain, a common set of technical, operational and business requirements for the development of an integrated market for payment initiation services is to be developed. In the market infrastructure domain, the Eurosystem is committed to taking a timely decision on whether to build a settlement service for instant payments in euro in central bank money, leveraging the pan-European nature of TARGET2.