

## Krzysztof Rybiński: Single euro payments area from the point of view of the National Bank of Poland

Address by Mr Krzysztof Rybiński, Deputy President of the National Bank of Poland, at the Conference of the Polish Bank Association, Single Euro Payments Area, SEPA Organisational Structure in Poland – SEPA PL, Klub Bankowca (Bankers' Club), Warsaw, 10 October 2006.

\* \* \*

Ladies and Gentlemen,

Not all of you may know that the first bank that fulfilled many functions of a modern central bank was established in 1609. It was the Bank of Amsterdam. This bank issued its own money, managed its supply through open market operations and operated an RTGS system for large volume payments, although the meaning of the term "system" was slightly different four hundred years ago as compared to its current meaning<sup>1</sup>. Four hundred years ago, the RTGS system of the Bank of Amsterdam completed payments equal to the Netherlands' GDP within three weeks. Today, many countries need less than a week for the same task.

Bankers who managed floren's agio in the seventeenth century could have never dreamt that four hundred years later we all would not only use a single European currency, but also implement standards of the Single Euro Payments Area, or SEPA.

SEPA is to be real. It is part of a vision of united Europe where payment services are part of the single market. You can rest assured that payment systems of European countries will cease to be national payment systems sooner or later. As intended by the European Union decision-makers, in a few years cross-border euro payments will be as unified and cheap as is the case for cashless money settlements in national payment systems now. From the point of view of the central bank, SEPA should be beneficial first of all to the citizens of Europe, but it is also to contribute to the development of the payment services market.

As politicians refine their visions of united Europe, tax-payers ask questions about the price. In the long term, the balance of benefits and costs of united Europe is undoubtedly favourable. The same pertains to the idea of SEPA. However, it is worth remembering that the final shape of the European payment system should be determined, to the largest possible extent, by the market that will choose the best solution for banks' clients.

The assumptions made in order to streamline and increase the efficiency of cashless turnover in euro are well justified economically across Euroland. However, in countries outside the Euro area, such as Poland, the implementation of SEPA should be subject to a thorough debate in a relevant community. This is why the National Bank of Poland appreciates the establishment of Forum SEPA Polska by the Polish banking community and is deeply convinced that all programmes and decisions worked out and made in the course of such cooperation will increase the satisfaction of Poles who use services of national banks through making product offers more attractive, through increasing security and level of services and through reducing their prices.

Inhabitants of the euro area obtained many benefits upon the introduction of the euro in the cashless turnover in 1999 and in cash handling in 2001. Transaction costs of foreign currency exchange disappeared, home bias on financial markets was reduced, risk premium decreased and the euro has become an important currency in which securities are issued on international financial markets. Menzie Chinn and Jakob Frankel, well-known American economists project that if Great Britain joins the euro area, the euro will replace the dollar as the international reserve currency<sup>2</sup> as early as in the late second decade of the 21st century, which might entail additional benefits for European consumers

---

<sup>1</sup> See also S Quinn and W Roberds "An Economic Explanation of the Early Bank of Amsterdam, Debasement, Bills of Exchange, and the Emergence of the First Central Bank", Federal Reserve Bank of Atlanta Working Paper 2006-13, September 2006.

<sup>2</sup> M Chinn, J Frankel, "Will the Euro Eventually Surpass the Dollar As Leading International Reserve Currency?", presented at NBER Conference, Newport, RI, 1-2 June 2005.

since Europe will be able to take advantage of what Pierre-Olivier Gourinchas and Helene Rey describe as the “exorbitant privilege”<sup>3</sup>.

Payment systems of the Euroland countries do not follow these changes swiftly enough. These systems have supported national and international retail operations in various European currencies so far. The only exception were activities of the central banks under the aegis of the European Central Bank. These banks quickly developed and launched the TARGET system for real-time gross settlements of large volume euro transactions. As regards the cashless turnover in pan-European relations, foreign currency exchange savings were the only measurable benefit stemming from the introduction of the euro for the consumers. Apart from that, the settlement time and the costs of cross-border transactions remained on the same high level as before the implementation of the single currency. These costs were much higher than prices of national transactions. One of the causes was the lack of the appropriate technical infrastructure, discrepancies in information and business standards applied in individual countries and the willingness of the banking sector to gain financial benefits from higher fees for cross-border transactions. This problem was raised already at the very beginning of the implementation of the single currency in Europe and the lack of visible and effective activities undertaken to change the situation encouraged the European Union decision-makers to take regulatory action. The aim was to provide mechanisms for effective euro payments in the Euroland and uniform principles for cashless payments. The policy stemmed directly from the Lisbon Strategy that assumed the creation of a strong European economy that would be able to compete on the international market. Moreover, there were no specific activities in the banking sector to modernise payment systems. This induced the European Commission to act.

The main document that stimulated development in that area was Regulation No. 2560/2001 of the European Parliament and the European Commission on cross-border payments in euro in the European Union that established coherent legal regulations for all payment services to enable the application of various solutions and provided uniform technological and business standards for suppliers of payment services. The Euroland’s banking community decided that the best way to fulfil requirements stipulated in the Regulation was to implement self-regulating mechanisms and to establish the European Payments Council, an inter-bank organisation that coordinates and supervises works on SEPA.

SEPA will be an area where citizens, entrepreneurs and other parties will be able to make and obtain payments in euro in the territory of Europe – both cross-border payments and payments within the borders of the Member States – according to the same simple rules, legal regulations and obligations regardless of the geographical location of the citizens and entrepreneurs.

The main aim of the works on SEPA, carried out by the European banking community, is to implement mechanisms for effective euro payments in Europe and to treat this area as a local market with all its consequences, including transaction completion time and fees (i.e. these parameters will be equal for national and cross-border payments).

The following assumptions have been made to achieve the objective:

- a coherent and technically neutral (i.e. independent of any specific type of devices) legal framework should be provided for all payment services within the European Union (excluding cash handling and cheques); this framework should allow for the implementation of various solutions,
- uniform technological and business standards should be provided for suppliers of payment services,
- self-regulating mechanisms in business relations between participants of payments should be provided; simultaneously, intervention of legislative authorities should be kept at minimum.

European authorities play an important role in the implementation of SEPA. The European Commission and the European Parliament are the main initiators and promoters of the idea of SEPA. They stimulate works on the project by issuing specific regulations and directives.

---

<sup>3</sup> P O Gourinchas, H Rey, “From World Banker to World Venture Capitalist: US External Adjustment and the Exorbitant Privilege”, UC Berkeley Working Paper, August 2005.

The European Central Bank is also an active participant of the SEPA project. However, it acts only as an observer in the EPC.

Central banks of individual Member States do not directly participate in the EPC works on SEPA. Their involvement is important in groups organised under the aegis of the ECB, especially as regards the works within the Eurosystem.

The European Central Bank is one of the main initiators and active supporters of the idea of SEPA and related projects.

The ECB participates as an observer in the works of the EPC Plenary, thus exercising some kind of "supervision" over the works on SEPA.

Independently of the above, the ECB cooperates with the banking community through other SEPA-related initiatives, e.g. through COGEPS (Contact Group on Euro Payments Strategy). Moreover, ECB representatives participate in meetings of the EPC working groups as observers.

Until last year, the Eurosystem's central banks were less active in this respect. However, as the time goes by and the risk of failure of SEPA keeps growing, central banks have decided to become more involved and to act as a catalyst that could lead to the implementation of the vision of SEPA in Europe. You should also remember that most decisions on payment systems in the euro area are taken by the Eurosystem's central banks, which means that the National Bank of Poland and other central banks from beyond the Eurosystem have had limited access to information and little influence on the works on SEPA.

According to the NBP, the representatives of the Polish banking system and other institutions that participate in the works on SEPA should continue their activities taken to prepare and work out SEPA standards and mechanisms for their implementation. It is thus crucial that the above mentioned persons present views agreed upon in Poland when stating their stance before authorities responsible for decisions regarding SEPA. Such views should take into consideration the interests of European and Polish consumers, the interests of Polish banks and the interests of the institutions comprising the infrastructure of the Polish payment system. Moreover, they should be coherent with the assumptions of the Lisbon Strategy, i.e. with the obligation to prepare the European Union economy for global challenges of the 21st century.

A separate issue is to specify the pace of works in Poland as regards the implementation of SEPA standards and mechanisms that have already been worked out. According to the timetable approved by the EPC, Poland will have to comply with SEPA standards for euro transactions already in 2008. However, the lack of established date for Poland's accession to the euro area means that Poland should have more time to implement solutions specific for SEPA, which would mean that necessary investments and changes could be spread over time. On the other hand, it seems that early involvement of Polish banks and infrastructural institutions in the approved solutions, e.g. through the implementation of mechanisms to lower costs in the sector, through increased efficiency and attractiveness of offered payment services and through strengthened security of financial transactions, could be extremely significant for increasing their own competitive edge on the overall European scale. Thus, it seems that the above dilemma over the appropriate pace of works should be thoroughly analysed by the banking community and infrastructural institutions.

SEPA-related works in Poland are coordinated by the Polish Banking Association, which results from the approved model for SEPA implementation through self-regulation of the financial sector. The banking community holds consultations on payment systems with the NBP through the Payment System Council which is a consultative and advisory body of the Management Board of the NBP and follows developments on individual projects. The cooperation within the Council has led to the identification of main challenges, including currently: the specification of the pace of works performed in Poland as regards the implementation of approved SEPA standards and mechanisms, effective exchange of information between the interested parties, including those from outside the banking community, such as for instance clients of banks. The major directions of activities have also been prepared. Their aim is to prepare the Polish community for SEPA-related activities.

The role of the PBA as the coordinator of SEPA works in Poland might change in the future if the approach based on the self-regulation model is discontinued in Europe and if the EU and ECB authorities apply a different model for SEPA adjustments (e.g. through issuing regulations for the banking sector) that could assume a greater role of the government and the central bank. We do not assume that this will be the case because the efficiently working self-regulation model might bring

better solutions than a model enforced through regulations. Regardless of the target model for SEPA implementation, the National Bank of Poland declares its readiness to support the process.

Important activities on the part of the NBP, as regards SEPA-related works, include the strengthening of the infrastructure for cross-border euro settlements and the participation in TARGET2 system, as well as the support of the implementation of SEPA standards in the Polish payment system. In order to achieve these goals, it is necessary to follow the works undertaken by the banking community in relation to SEPA on the EU and national level. It is also important to foster cooperation on the government level to prepare and implement possible new regulations for the banking sector. The Payment System Council can further play an important role in this respect.

SEPA is a crucial challenge for the Polish banking sector and for many clients of that sector. This is why it is critical to hold wide-scale consultations not only to develop a vision of SEPA PL that would be coherent with the European vision of SEPA, but also to take into consideration specific niche needs of Polish entities.

Many questions, including the following, should be answered when developing the vision of SEPA PL:

- what is the target model of the European payment infrastructure and how to make sure that economies of scale are used on the single payment market in order to lower the costs of services for consumers, the appropriate competition is simultaneously provided and specific niche needs of each country are met;
- what is the best pace for implementing changes, considering the lack of straightforward declarations of the government regarding the date of Poland's accession to the euro area;

The experience gained so far suggests that the maintenance of the national payment infrastructure is beneficial for Poland. For instance, the launch of Euro-Elixir and Sorbnet-Euro significantly reduced fees for cross-border payments in correspondent banking. So far, the decrease in prices has benefited mainly banks while their clients have felt the positive effects to a lesser extent. The National Bank of Poland hopes that clients of banks will soon more strongly experience positive price developments brought by the modern, safe and effective infrastructure of euro payments. Such a development would indicate undoubtedly that the National Bank of Poland should strengthen its activities to counter the marginalisation of the Polish settlement and payment infrastructure because the existence of a national payment infrastructure would not only support payments specific to Poland (such as ZUS – Social Insurance Institution payments and payments to tax offices), but also bring unquestionable benefits to Polish citizens and companies.

Ladies and Gentlemen, the implementation of SEPA is a huge challenge for the Polish banking system, for companies that make up the Polish payment infrastructure and for many large clients of banks, including clients from the public finance sector. Such a huge challenge requires the creation of the vision of SEPA, the vision that will unite activities of all stakeholders of this process – from banks, through its clients up to infrastructural and telecom companies. The vision should treat the interests of the clients of the Polish and European payment infrastructure as a priority. All stakeholders should remember that only those companies will be successful in the global economy of the 21st century that deliver value to their clients. Companies that use cyclical market trends to gain benefits at the expense of their clients are doomed to fail. I would like to call on all those who develop the vision of SEPA Poland to analyse the functioning of payment systems in the most advanced parts of the world and to benefit from the experience of such countries as Singapore, as expressed in the vision entitled "Intelligent Nation 2015"<sup>4</sup>. Let us use the SEPA Poland process to create a payment system for the 21st century. Let us inspire others, including public administration, to act and implement e-administration and e-economy so that Poland and Europe can be successful in the global economy of the 21st century.

Thank you very much for your attention.

---

<sup>4</sup> See [www.iN2015.sg](http://www.iN2015.sg)