

Jean-Claude Trichet: Creating an integrated market for the euro area

Speech by Mr Jean-Claude Trichet, President of the European Central Bank, at the Conference "SEPA Summit" at the Euro Finance Week, Frankfurt am Main, 13 November 2006.

* * *

Ladies and gentlemen,

It gives me great pleasure to welcome you to this conference on the Single Euro Payments Area (SEPA). The ECB is committed to the success of the SEPA project and therefore decided to contribute to the organisation of this SEPA Summit in Frankfurt.

I am pleased that we could attract some of the key decision-makers in Europe (and beyond) to this two-day event. I welcome Mr McCreevy, Commissioner for the Internal Market, who will share his views on the developments in the creation of an Internal Market in the field of payments. I also welcome the members of the two panels this afternoon.

Today's conference is an excellent opportunity to discuss the opportunities that SEPA and, more generally, financial integration offer for Europe. On this occasion, the ECB is also distributing for the first time its brochure on SEPA, which is intended to provide an informative overview of the project, also for those not involved in this issue on daily basis.

Our main message is that SEPA will only become a reality when all euro payments in the euro area are treated as domestic payments and the current differentiation between national and cross-border payments disappears. I am aware that this calls for everyone to make substantial efforts, as it requires not only the alignment of national practices of the banking industry, but also changes in habits from economic actors in all euro area countries. Indeed, the SEPA project is – in ambition and size - comparable with the changeover to the euro banknotes and coins, although the logistics are quite different. SEPA could be seen as an important historical step in the unification of Europe after the introduction of the euro banknotes and coins.

The progress with the SEPA project that has been achieved up to now by the industry is impressive. Looking back on the discussions on improving cross-border retail payments less than a decade ago, it was surely difficult to imagine that such a remarkable market-led movement called SEPA would be achieved to foster financial integration. The SEPA project has activated a real modernisation process which, in turn, will generate other adjustments.

It is thanks to many individuals, many of whom are here today, who have continuously driven the project, that such progress has been possible. The banking industry has been able to join forces with the European Payments Council (EPC) to become the driving force behind the SEPA project.

I would like to share some thoughts with you today on three topics. First, I would like to explain briefly the ECB's interest and involvement in the SEPA project. In particular, I will underline that, for the ECB, progress in financial integration is crucial and the status quo in this field is not an option. As a second topic, I would like to address some of the factors that are essential for the success of SEPA. Finally, I will present my thoughts on the outlook for SEPA as a truly integrated payment market in the euro area.

Financial integration and SEPA

Let me explain briefly the main economic benefits of financial integration, stemming first from the better sharing and diversification of risk, and second from the increase of the potential for higher economic growth.

Concerning the first aspect, financial integration in the euro area facilitates a better sharing and diversification of the risk of potential shocks, because it will allow, for example, economic agents from one region to invest more easily in other regions of the euro area. Economic agents will also be able to choose payment service providers from different regions, or choose providers that have back-up facilities in different regions. Financial integration is therefore relevant for the stability of the financial system, as it improves the financial system's ability to adsorb adverse disturbances.

Concerning the second aspect, financial integration also increases the potential for greater and more sustainable economic growth, as it will increase the capability for economies of scale and scope, and thus increases investment opportunities. For example, an integrated financial system, with harmonised rules, standards and practices across the different countries, would allow for more rationalisation, consolidation and expansion. The integration process will foster competition and innovation, and drive down costs. Indeed, the opening-up of markets will allow payment service providers to offer their services in other euro area countries, which will increase competition.

The euro area has already achieved a significant degree of financial integration. In this respect, removing the fragmentation of retail payment markets will contribute further to financial integration. SEPA, with its harmonisation and restructuring efforts, is a crucial factor in opening up the different national retail payments markets, allowing euro area-wide competition and fostering innovation in the euro area.

Let me now continue with the fields which have to be covered to foster financial integration.

How to reach SEPA?

In essence, financial integration is achieved when three conditions are fulfilled: (1) singleness of the market, (2) market participants' equal access to the market, and (3) market participants' equal treatment in the market. For the retail payments markets, this means that market participants must be subject to a single set of rules when dealing with payment instruments or services, have equal access to the payment services or products, and be treated equally.

I see three main barriers which have to be removed if the euro area is to become a more integrated retail payments market. These are the technical, commercial and legal barriers which exist between the current national payment markets.

The first barrier is a technical barrier. Of particular importance for SEPA is the development of common technical standards, which enable the smooth connection of systems and the transfer of messages between different players. Technical standards are the basis for payment systems, and could also be referred to as the "plumbing" of the financial system, ensuring the transfer of funds. National fragmentation through standards should belong to the past and common standards for the euro area should be in place. The ECB fully supports the work of the EPC in this field, which has cooperated with the International Standards Organisation (ISO) to develop these standards.

The second barrier is a commercial barrier. For SEPA, the development of a common set of rules and business practices is a necessity. This is referred to as the "rulebooks" that ensure a common treatment for transferring funds. The EPC has agreed on the common rulebooks for credit transfers and direct debits, and a framework for card payments. This single set of rules will allow different entities to provide core services throughout the euro area. The ECB fully supports the EPC's work in this field. We also subscribe to the concept of separating the rules from the processing services, as it will allow operations on a European scale and bring an end to vertical integration, in which scheme rules are set by the processors.

The third barrier is the legal barrier. The current regulatory differences across the euro area hinder the provision of efficient and automated services throughout the euro area. The proposed Payment Services Directive will remove these legal barriers. The Directive – and there we are privileged to have later on the explanations of Mr McCreevy - will create a clear and homogenous framework for making payments in euro. The Eurosystem strongly supports the work on the Directive, as it will establish the legal certainty which is necessary for operations across the euro area. An early adoption of the Directive is key, as it will facilitate the implementation of SEPA.

Given the importance of financial integration, and SEPA in particular, the ECB is acting as a helping hand or "catalyst" for private sector initiatives and is monitoring the progress of SEPA. As a catalyst, the ECB devotes particular efforts to fostering collective action in the private sector to address coordination problems, which hamper financial integration. The ECB also provides guidance and has made its expectations clear so that the SEPA project does not become a short-term solution for cross-border payments, but becomes an ongoing project that will bring the euro area closer to having an advanced retail payments market.

Let me now turn to the success factors for SEPA.

Success factors for SEPA

As part of any good project, it is important to have a clear vision and achievable deadlines. The Eurosystem, in cooperation with the European Commission, has defined a common vision for SEPA, which should inspire the SEPA project. We see 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”. For euro area citizens, this implies that they will be able to make cashless payments throughout the euro area from a single payment account anywhere in the euro area, using a single set of payment instruments, as easily, efficiently and safely as they do today in the national context.

This vision provides the basis for SEPA and guides the different initiatives of the banking industry. Indeed, the vision has become the “leitmotiv” for changes in the retail payments market.

To realise the SEPA vision, strong commitment from all the stakeholders is required. The ECB and the Commission are eager advocates of the SEPA project as it brings an integrated and competitive market.

Furthermore, the European banking industry has shown commitment by launching several initiatives to create SEPA, and by setting up the EPC to drive the different industry initiatives. More recently, public administrations have also shown their commitment to SEPA, as the ECOFIN Council in October expressed its strong political support for the creation of SEPA.

The success of SEPA depends on the commitment of all stakeholders, and this will be facilitated when the advantages of SEPA are made as visible as possible. Let me therefore share with you some thoughts on the benefits of SEPA.

For consumers, I expect that they will be able to make their euro payments throughout SEPA from one bank account. They will be able to use payment cards anywhere in the SEPA, and they will be able to make convenient cross-border bank transfers and direct debits from anywhere in the euro area.

For corporations and retailers, I expect that they will be able to simplify their European business management. They will also be able to collect direct debits and payment cards from anywhere in the euro area. The more competitive market will lower operational costs of payment cards and will at the same time ensure a more consistent acceptance of cards.

For the banking community, I expect an increase in competition and cooperation across euro area borders. I also expect that market efficiency will increase, as better prices could be negotiated for the euro area and new services will be provided to increase automation.

The migration towards SEPA, however, also introduces some challenges. For example, the banking industry is expected to be confronted with initial investment costs in particular, which will clearly have an impact on the business of the banking industry. Corporations and retailers show concerns about the evolution of prices. It is important for the success of SEPA that these concerns are addressed.

Listening to the community, the ECB has tried to better understand the potential effects of SEPA for the different stakeholders.

In general, we expect that the overall impact for the banking industry will vary according to different scenarios and stages of the SEPA project. In the short run, the coexistence of SEPA schemes in parallel with the national schemes is, for example, expected to lead to initial investment costs and a relatively neutral impact on the revenue side for the banking industry. In the long term, when national schemes are replaced by SEPA schemes, the costs for banks are expected to decrease because of potential cost savings, for example from rationalisations, economies of scale and innovations (such as electronic invoicing). The revenue side will also be affected as competition increases.

The impact on costs and revenues will be determined by the approach chosen by the banks. Banks that take a forward-looking view and opt for additional services which will automate the payment process will create new business opportunities.

The changes which are required in the initial phase of the setting-up of SEPA are certainly substantial, and benefits can be reaped especially by those institutions that embrace new technological developments and provide innovative services.

This leads me to my last thoughts on the outlook for SEPA.

Outlook for SEPA

The Eurosystem's outlook for SEPA is a truly integrated market, where all euro payments are treated as domestic payments and the level of safety and efficiency is at least on a par with the best performing national payment systems today. The Eurosystem will closely monitor the developments of SEPA, and will pay particular attention to characteristics of an integrated market, such as singleness of the market, equal access to the market and equal treatment in the market.

It is important the SEPA will finally bring about the creation of a single market where payments are equal to and ideally will surpass the speed and convenience of the best performing current national systems. I expect the SEPA project to be future-oriented and of a high quality.

It is also important for the single market that all stakeholders are informed and consulted on their requirements in the development of SEPA. All parties involved should intensify their dialogue on SEPA. The ECB will increase its communication with users. We intend to hold a conference with corporations and merchants in 2007.

Conclusion

Let me now conclude.

SEPA is crucial for the euro area, because it fosters financial integration and brings benefits to the citizens. Considerable efforts have been made to enhance financial integration, and more efforts are still to be made to achieve a truly integrated market.

Taking a longer-term perspective, SEPA should be seen as a continuous project of steps towards financial integration. The ECB and national central banks of the euro area will provide guidance and assistance to make SEPA a success.

I am confident that the changes initiated by the industry in cooperation with authorities will pave the way for an integrated and more competitive retail payments market for the euro area, which will foster innovation, better products and services, and better prices.

Thank you for your attention.