

Gertrude Tumpel-Gugerell: Going the extra mile to be ready for SEPA

Speech by Ms Gertrude Tumpel-Gugerell, Member of the Executive Board of the European Central Bank, at the 10th Euro Finance Week-SEPA Summit: "Ready for SEPA?", Frankfurt am Main, 19 November 2007.

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Ladies and Gentlemen,

It is a great honour for me to open this conference, the SEPA Summit, which is organised for the second time in Frankfurt as part of the Euro Finance Week. Special attention in this year's Euro Finance Week is given to the integration of European financial markets in a common regulatory framework. Indeed, the title of this Week "European Finance and Insurance between Regulation and Innovation" is directly related to the SEPA project as SEPA is all about harmonisation, modernisation and innovation.

It is also a great pleasure to welcome you to Frankfurt, the city of the euro. Frankfurt is often characterised as the smallest metropolis in the world, in which there is a lot to discover at close hand. Indeed, Frankfurt is a European meeting place and an intersection for trade and finance. A perhaps lesser-known fact is that Frankfurt is also an important intersection for telecommunication and internet providers, as major data networks cross here. Indeed, 90% of German and 35% of European internet traffic is channelled through Frankfurt. We are, therefore, at the right location to discuss SEPA and the development of the European payment markets in the years to come.

I would like today to express the views and expectations of the Eurosystem on the SEPA project. But let me first take a brief look at past achievements. The 2006 SEPA Summit focused mainly on building up all relevant stakeholders' commitment to SEPA. Last year, the President of the ECB and myself underlined the opportunities which financial integration in general and SEPA in particular could bring to the economy. We also concluded that much more had to be done to reap these benefits. I specifically called for a closer involvement and dialogue with all stakeholders.

Since then a lot of progress has been made and I am glad to see that, in general, the SEPA project is well on track. The basic SEPA components for euro payments have been developed, such as the SEPA credit transfer and the SEPA direct debit, as has the regulatory framework under the Payment Services Directive. Each national community has set up a forum for stakeholders to discuss the upcoming changes related to SEPA, and a European forum has been established.

It is also impressive to see that many banks have made substantial preparations in order to launch the SEPA credit transfer in January 2008. It is expected that over 80% of banks representing the majority of credit transfer transactions (over 90%) will be operationally ready. The banks will demonstrate their commitment to SEPA at a signing event at the end of today.

Financial integration is also progressing well in other fields. It is a particular coincidence that TARGET2, the next generation of the Eurosystem's large value payment system, will be launched today. TARGET2 is an important milestone. It will offer Europe a more uniform wholesale payment infrastructure, with a harmonised service level and a single price structure. Thus, TARGET2 is another good example of progress in the creation of a common payments area.

Let's now turn to this year's SEPA Summit, which is called "Ready for SEPA?", and rightly so. In my view, this question is not limited to the mere operational readiness of the industry to offer SEPA payments. I consider the topic of this conference to be broader. The question

should perhaps be understood as, is the industry ready to create a “truly integrated” Single Euro Payments Area?

The ECB sees SEPA as a major catalyst for more financial integration in Europe. SEPA will influence the payment landscape in Europe for many years to come and this will involve a re-think by all the parties involved. Indeed, it is not enough to defend current market positions or current practices. Rather, the point is that SEPA will benefit those who bring innovative services to their customers. SEPA will benefit those who are future oriented.

Today I would like to focus in particular on two issues, both of which are much discussed by banks and which are needed to create a truly integrated SEPA. The two main questions are, first, what about the readiness of customers? And second, what about the readiness of other payment instruments, in particular payment cards?

Let me first give you my views on the readiness of the customer.

Readiness of customers?

A parallel can be drawn with another major project, namely the changeover to the euro notes and coins in 2002. Indeed, as with SEPA, many of the preparations for the euro changeover were not visible to the citizens, as they were carried out by technical experts. Furthermore, the banknotes' security features were disclosed only four months before the launch. As with SEPA, it was difficult to predict how the customer would react.

On the other hand, well before the euro changeover took place, the central banking community discussed customer readiness in depth with the aim to ensure acceptance of the euro notes and coins. Well in advance of 2002, the Eurosystem started organising a “partnership programme” that involved the main bodies in the various sectors. This partnership programme emerged from the “megaphone idea” and the understanding that communication on the changeover to the euro had to be at national level by the national public authorities, banking communities and end-user associations. Each sector was encouraged to inform their target groups. Indeed, as if with a “megaphone”, the Eurosystem passed on a common set of key messages to target groups, and they in turn passed on the information to others. Applying the principle of subsidiarity in this context proved itself as the correct way to deal with differences in culture, language and institutional setting.

Another characteristic of the changeover was related to the timetable. All countries set an end date for the euro changeover, the dates were not harmonised. In some participating Member States the official changeover period was kept very short; in others it covered a maximum period of two months. Despite the absence of a harmonised timetable, the euro changeover in 2002 was a major success, and the whole changeover process was almost completed after only two weeks.¹ This clearly shows that the clarity of the information on the end date given in the information campaigns had been key, and customers in fact did not want to wait until that final date to begin using the euro.

The experiences of the euro changeover are very relevant for the SEPA project, which is comparable in size, complexity and political relevance. I see, in particular, two main lessons to be learned from the changeover.

First, more communication on SEPA is needed. I am not implying that the industry should carry out a similar launch campaign, but the industry should step up its efforts to foster customer readiness. To be as successful as the euro changeover, the SEPA project must build up a closer “partnership” with stakeholders.

¹ After two weeks, over 90% of all cash transactions were being made in euro.

Some national communities have already closely involved the end-users, and have published reports on the developments of the different stakeholders. In Germany, for example, I have noticed that some of the larger banks have begun an advertising campaign on SEPA. I encourage other communities to follow these examples.

Let me also be clear on one related point: Banks should not try “misusing” SEPA, and blaming SEPA for any unpleasant changes. In that case, we could end up with a similar debate on perceived price increases as we did after the introduction of the euro. This would help nobody – neither the industry nor the customers.

Second, the industry should be clearer on the timetable for the “dual circulation” period of its instruments. The request for clarity on the end date also comes from end-user associations. Interesting in this respect is the ECB’s recent study in cooperation with the banking industry analysing the economic impact of SEPA.² The study confirms that two main forces will come to play. On the one hand, cross-border competition and new market participants could affect the revenue side of banks. On the other, automation and electronic processes will enable banks to achieve efficiency gains and cost reductions. The study concludes that the dual implementation phase of SEPA should be as short as possible. As initial investments and higher adaptation costs are necessary in the short run, it is for the banks to decide how they will adapt to the new environment in the medium to long term. Indeed, a shorter changeover to SEPA will allow banks to focus more on their offering of innovative products in the medium to long term.

One of the more active SEPA communities, France, has already indicated an expected end date. This is a positive example, and other communities should follow. Should, however, banks need more preparation when they move to the new SEPA framework, the ECB and the European Commission stand ready to consider supporting measures, including regulation, if required.

Let me now turn to the readiness of the industry for SEPA card payments. I will briefly present some of the ECB’s views on cards. Later today the panel will provide their views on the new cards landscape in SEPA and I am looking forward to an interesting discussion.

Readiness of SEPA card payments?

Card payments are closely monitored by the Eurosystem because they are now the most popular non-cash payment instrument in the euro area. According to our Blue Book statistics, more than 15 billion card payments were made in the euro area in 2006.³ Between 2000 and 2006, we also noticed that the use of cards increased more quickly than the use of other instruments. The use of cards increased at an impressive rate of 15% per annum.

The impact of any changes in the card market is significant for all stakeholders. Given that the overall cost of payments at a point of sale ranges between 0.4% and 0.65% of GDP⁴, it is clear that any development in the card market also has major implications for the economy. An increased use of cards will reduce some of the costs related to other payments, such as cash.

On several occasions, the Eurosystem has voiced its expectations regarding SEPA for cards. In particular, the card schemes should offer consumer choice, operate in competitive markets

² “The economic impact of the Single Euro Payments Area”, by Heiko Schmiedel, ECB Occasional Paper No 71, August 2007.

³ Payment and securities settlement systems in the European Union, Blue Book, fourth edition.

⁴ “The Costs of Paying – Private and Social Costs of Cash and Card Payments”, Mats Bergman, Gabriela Guibourg and Björn Segendorf, Working Paper No 212, Sveriges Riksbank (September 2007).

and avoid geographical segmentation. In doing so, the Eurosystem expects that the SEPA for cards offers high efficiency and low prices derived from current best practices.

In my view, a clear long term strategy of a SEPA for cards is not yet developed. The Eurosystem expects at least one new European card scheme which can compete with the international schemes in the SEPA environment. I'll address this issue more in depth in the following panel.

What I would like to stress, however, is that the Eurosystem welcomes the progress that has been made towards standardisation for cards, which, when implemented, will lead to the creation of a European market for terminals and for cards acquiring. The Eurosystem also welcomes the efforts of the international card schemes in preparing for SEPA and the SEPA changes they have already announced. I also hope that the European Commission will soon formulate its view on interchange fees, so that uncertainties in this field are removed.

Before I conclude, I would like to concentrate on an important additional issue: innovation.

Innovation

As I stressed at the beginning of my speech, SEPA is all about harmonisation, modernisation and innovation. The SEPA project has come a long way, but the process is far from being completed. More modernisation and innovation is needed. The information and communication technology is continuously evolving and we cannot lean back and watch. SEPA must evolve, and the SEPA products should be complemented with value-added services allowing customers to make payments, fast, easy and secure and, most importantly, as much as possible paper-free. I am here talking about initiation and confirmation services. Combining these services with the SEPA payments will make the payment process fully electronic. End-users will spend less time on payments – and less time also means less money! We refer to this perspective as the next stage of the SEPA project: eSEPA.

eSEPA promises significant financial benefits for banks and customers via:

- Cost savings
- Added revenue
- Customer retention through value-added differentiation.

Let me quickly run through three examples:

1. SEPA online payments

The European Payments Council (EPC) has worked on a project that enables online merchants to offer their customers a convenient, well-know payment solution. It could become one of the convincing responses of the European banking industry to the competitive challenge posed by PayPal and similar new types of payment service providers. I would explicitly like to encourage the banking industry, and especially the EPC, to step up the work on the new payment methods.

2. Mobile payments

This is a market segment where the development in Europe is still in its infancy – although high expectations had been raised a few years ago. On a global level, m-payment initiatives have now gained strong new momentum.

The GSM Association has announced the next steps of its Pay-Buy-Mobile initiative. This initiative builds on the infrastructure of the major credit card companies and aims at enabling global interoperability between contactless chip cards and point of sale terminals.

At the same time the EPC is looking for viable models of m-payment solutions for the SEPA market. Potential benefits could be for example an even higher level of payment convenience, speed and security experienced by the users. These types of benefits are the reason why I think that the EPC's official dialogue with the mobile industry should start soon, to define viable cooperative models and standards for this area.

3. *E-invoicing*

I mention e-invoicing in the context of eSEPA because it offers a vast potential of benefits to users and providers alike. For the private consumers, the most significant advantage may be convenience: just imagine that you receive your invoices electronically and can directly initiate their payments with one tick or click. This is already reality in some countries, but should become available across SEPA.

Even more benefits are possible for corporates, since settling paper invoices is usually a very cost-intensive process. Just imagine that 97.5% of all invoices worldwide are estimated to be paper-based!

Let's think about the average unit cost for a biller per invoice and the average unit cost for a payer. Incoming invoices need to be copied, forwarded, entered into different systems and stored – i.e. touched and managed by a large number of hands and transported physically between all of them. These procedures – and also potential mistakes happening along the handling chain – can be significantly changed by introducing electronic invoices that allow seamless automated handling, including direct links e.g. to payment functions. Approximately 27 billion invoices per annum are being produced in the EU. It is obvious that any change leading to their more efficient handling quickly results in billions of possible savings per year for the European economy.

How to foster the development of European E-Invoicing has become an important topic for the European Commission, who is currently setting up an official working group to coordinate the standardisation approaches, to address the legal barriers as well as issues of trust and operational risk..

Let me now briefly conclude.

Conclusion

With just a few months before the launch of SEPA, banks are making preparations in order to be ready. I have been closely enough involved to see the tremendous efforts made by the banking industry, and I expect that the vast majority of banks will be operationally ready for SEPA.

Operational readiness is, however, not enough. Indeed, SEPA is the next step of the euro. January 2008 will only be the start of this process. SEPA will enhance pan-European competition and foster integration, consolidation and innovation. SEPA requires us to take a broad view that goes beyond operational readiness.

In the coming months, we need to go the extra mile and make an additional effort to ensure the readiness of customers and the card payments market. We also need to think about the next steps. And there are, indeed, important further steps in this process. Creative solutions will pay off!

Some years ago SEPA was an idea. In 70 days, SEPA will be reality.

I wish you an open and fruitful conference.

Thank you for your attention.