

## **John Hurley: Launch of the Single Euro Payments Area (SEPA)**

Address by Mr John Hurley, Governor of the Central Bank & Financial Services Authority of Ireland, on the Occasion of the Launch of the Single Euro Payments Area, Dublin, 28 January 2008.

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### **Introduction**

Ladies and Gentlemen, Pat McLoughlin, Chief Executive, of the Irish Payment Services Organisation.

I am delighted, together with IPSO, to welcome you all to the Central Bank this evening to mark the beginning of a new era for the European payments industry and its customers. SEPA, about which you will undoubtedly be hearing a lot more over the next couple of years, is an acronym for the term “Single Euro Payments Area”, designed to do for electronic payment instruments – such as credit transfers, direct debits and card payments – what the introduction of euro notes and coins in 2002 has already done for cash transactions. So, SEPA is the next logical step on the road to completing the internal market following the introduction of the euro.

Since January 1999, priority or large value payments in euro have been facilitated in a standardised way by the TARGET real-time, gross settlement system operated by Eurosystem national central banks. TARGET provides the Eurosystem with a means to settle its own monetary policy operations, and also delivers to the European banks a real-time, gross settlement system in central bank money. However, private citizens and businesses in euro-area countries require a comparable facility for making low value – or “retail” – non-cash payments in euro. The aim of SEPA is to provide all consumers, whether private citizens or corporate bodies, with better payment services and more efficient payment instruments, while at the same time facilitating further European integration by improving competition and innovation in the retail payments market.

Until now, each euro-area member state’s national retail payments market has tended to remain more or less isolated from those of other countries, with levels of efficiency and service varying from place to place. Cross-border euro retail payments in particular have, therefore, been less efficient in many respects than comparable payments made within a member state, as payment systems’ technical standards, rules and procedures vary from country to country.

### **The SEPA project**

Following close collaboration within the banking industry in Europe, the SEPA project officially “went live” today, with the formal launch by Europe’s banks of the SEPA Credit Transfer Scheme, the first of the new SEPA payment instruments; over the next four to five weeks, all of the Irish banks offering retail payment services will be in a position to offer this new service to their customers.

Direct debit payments will be covered by the SEPA Direct Debit Scheme, but will not be available until November 2009, when the EU Commission’s Payment Services Directive is transposed into national law throughout the EU.

The SEPA project also covers payment cards. In this regard, the SEPA Cards Framework has been in force since 1 January 2008. This framework outlines high-level principles and rules that will allow European consumers to use payment cards to make payments and cash withdrawals throughout the euro-area on the same basis as in their “home” countries.

So how will SEPA improve the situation? The project will deliver common retail payment instruments – in other words, credit transfers, direct debits and payment cards – that can be used for euro-denominated payments not just within the euro area, but throughout the entire EU, together with Iceland, Liechtenstein, Norway and Switzerland. When the SEPA project has been concluded, all euro-area bank customers in particular will be able to use one payment account in one country, and one set of standardised payment instruments, to conduct all of their payments business. All euro-area payments will, in effect, become domestic payments, and there will no longer be any differentiation between national payments and cross-border payments.

The focus of SEPA is on making efficient and standardised payment options available to EU consumers. The greatly simplified payments world that will result is expected to deliver major benefits, particularly for those with a requirement to make cross-border payments. SEPA should also result in enhanced competition, since all consumers using payment services, and not just those making cross-border payments, should be able to choose between all payment service providers throughout the euro area that offer SEPA-compliant products, regardless of where those payment service providers might be located. Existing legislation on cross-border payments in euro stipulates that banks can charge no more for a cross-border payment than for its domestic equivalent.

While the Eurosystem and the EU Commission are strong advocates of SEPA, it remains primarily a market-driven project. The role of the Eurosystem in relation to SEPA is that of a catalyst, or facilitator, while leaving the project's implementation to the banking industry.

In Ireland, the Central Bank, in its capacity as payment systems overseer, is fully committed to the successful implementation of SEPA by the Irish banking community. The Irish Payment Services Organisation, IPSO, is the body with primary responsibility for ensuring the implementation of SEPA. In this context I would like to take the opportunity afforded by this evening's event to acknowledge publicly the efforts of Pat McLoughlin, the Chief Executive of IPSO (and of his predecessor in this role, Stewart MacKinnon, now leading the SEPA initiative at the European level as the Secretary General of the European Payments Council), the members of the IPSO SEPA Implementation Task Force, and indeed all of their colleagues at every level in the IPSO member banks, in preparing the Irish banking community to meet the challenges posed by SEPA; in a few minutes, Pat will speak about SEPA from his own perspective.

## **National Payments Implementation Programme**

In fact, SEPA is but one of a number of important developments currently in progress in the area of payments. A closely related project is the National Payments Implementation Programme, or NPIP, an initiative involving the Central Bank, the Department of the Taoiseach, the Department of Finance, and IPSO. The aim of NPIP is to develop a strategy for the future payments infrastructure in Ireland that will be inclusive of, and deliver efficiencies to, all sectors of the economy.

The active involvement of all of these constituencies is indicative of the importance being attached to developing Ireland's payments infrastructure. In addition, many other groups – representing, for example, consumers, the business community, and the wider public service – have already become involved in NPIP, and it is intended that others will be encouraged to participate as and when the need arises during the course of the project.

There is significant common ground between NPIP and SEPA, with the focus in each case being very much on electronic payments. The successful implementation of both NPIP and SEPA will require the delivery of electronic payment methods that are:

- safe and efficient;
- easy to use;

- accessible to everyone.

Other significant changes are also occurring throughout Europe in the arena of payment and settlement systems. The TARGET system is in the course of being replaced by TARGET2, which provides harmonised prices and services, together with improved efficiency and additional functionality. TARGET2 commenced operations in November last and Ireland will be in the second group of countries to migrate to the new system in February. Finally, TARGET2 Securities, or T2S, will harmonise the settlement of securities trades in central bank money, by concentrating securities and cash settlements in euro within an efficient single platform. T2S will act as a catalyst to integrate European post-trading financial services, and will foster competition by providing harmonised access to settlement services within the European financial market.

## **Conclusion**

While the successful development and implementation of all of these systems will involve a significant effort on the part of all those involved, the end result should provide significant benefits to the economy as a whole, as well as to all payment systems users, whether large corporate bodies, or private citizens.

To conclude, I hope that I have managed to convey something of the significant changes that are occurring, and will continue to occur, in the arena of payment and settlement systems over the next few years, and in which Ireland will play its full part.

Thank you for your attention. I will now call upon Pat McLoughlin, the Chief Executive of the Irish Payment Services Organisation, to say a few words about the launch of SEPA.