

Jean-Claude Trichet: Integration and innovation – the Alpha and Omega of a successful retail payments market in Europe

Opening remarks by Mr Jean-Claude Trichet, President of the European Central Bank, at the Joint ECB/the Netherlands Bank conference on "Retail payments: integration and innovation", Frankfurt am Main, 25 May 2009.

* * *

Ladies and gentlemen,

It is a great pleasure for me to open this conference on integration and innovation of retail payments. This conference, organised jointly by the European Central Bank and De Nederlandsche Bank, brings together participants coming from more than 30 countries of all five continents. The research papers have been carefully selected from an amazing number of submissions.

Together, we will explore how to interlink policy conduct, research activities and market practice in a field of banking that is not always in the limelight, namely retail banking. Retail banking has proven to be an area of stability within the banking business during the recent period of financial turmoil. Payments business, which generates about one quarter of all banking revenues, has remained a source of strength. At a time when banks' other sources of income are more volatile, they can count on reliable and regular revenues being generated through payment services.

The other side of the coin is less alluring. Payments business roughly accounts for one third of the operational costs of the banks. In Europe, part of these costs is obviously related to the current fragmentation in the retail payments market. Overcoming such fragmentation by means of more integration would decrease the operational costs banks are confronted with. This is the link to our topic today.

Against this background, it is no surprise that today's first theme will be the relevance of retail banking and payments for banks' profitability. Mr. Lavayssière, Director of Global Financial Services Capgemini, will make the keynote speech on this theme, and I am sure that his remarks and the following academic session will provide fundamental insights into the economic rationale for the integration and innovation of the retail payments market.

Successful integration of retail payment markets will not only provide benefits in terms of diminishing costs, it will also contribute to financial stability. Restoring confidence in, and improving the resilience of, financial systems is of paramount importance.

Governments and central banks around the globe have made unprecedented use of their policy tools to fight further economic and financial decline. The ECB and the Eurosystem have taken rapid and bold actions in response to the crisis. These measures have been providing refinancing to the banks well above the usual levels and under more flexible conditions than usual. Executive branches have decided exceptional measures to support financial institutions and help stabilising the financial markets. You may now ask: does it make sense in current times to focus on the integration of payment markets and infrastructures? Does it make sense to invest in the integration and modernisation of retail payments business? Our answer is: Yes, it does.

Let me first briefly discuss how integrated payment instruments, systems and infrastructures have strengthened the backbone of modern economies. Second, I will explore how benefits by integration and innovation are to be realised in retail payments business.

Quite fundamentally, the availability of reliable and safe payment means for the transfer and settlement of funds is a *conditio sine qua non* for economic interaction. Due to the very rapid growth in the volume and the value of payment transactions stemming from the money,

foreign exchange and securities markets, the importance of payment clearing and settlement infrastructures has grown considerably over the last two decades. The integration of these markets is closely correlated with the degree of integration of the underlying payment infrastructure. Thus, the effective transmission of the single monetary policy throughout the euro area, the depth and liquidity of financial markets, and the resilience of the European financial system as a whole depend to a considerable extent on the integration of the payment infrastructure.

The ECB report on financial integration of April 2009 has assessed the state of the European financial integration process. The segment closest to the single monetary policy, the euro area money market, continued to be highly integrated until autumn 2008, when the financial crisis intensified. This integration has been supported by the high degree of integration of the underlying large-value payment system. The second generation of TARGET, TARGET2, has not only established an even more uniform wholesale payment service in the euro area, it has also introduced innovative functionalities. In fact, TARGET2 is the first market infrastructure to be completely integrated and harmonised at the European level. In the same way that TARGET2 backed the integration of the uncollateralized money market, the introduction of TARGET2-Securities (T2S) will further foster the integration process by supporting the collateralised money market.

The retail banking segment in Europe, by contrast, remains rather fragmented, as does the underlying market infrastructure. Despite the introduction of the euro, payment habits still vary widely across the euro area. In some countries, cash is making up more than 90% of retail payment transactions by households. In other countries, cashless payment instruments have driven down cash usage considerably. Likewise, retail payment clearing and settlement is organised differently in the various countries, reflecting local tradition and business preferences.

To overcome these entrenched differences, the banking industry joined forces in 2002 and launched the initiative to create the Single Euro Payments Area, SEPA. The primary objective of this initiative is to achieve a fully integrated market for retail payment services. Distinctions between national and cross-border payments should vanish. Practically, one set of pan-European payment instruments should be available to serve the whole market, making national legacy payment instruments superfluous.

Needless to say, such an initiative, which requires unprecedented forms of co-operation among competing market actors, may give rise to competition concerns. It may also get to a situation where the self-regulatory powers of the banking community have reached their boundaries, and regulatory support is required. The European Commission and the Eurosystem have been supporting SEPA by closely monitoring the developments and by providing guidance to the market. The Payment Services Directive (PSD), which is to be transposed at national level in November of this year, and the revised Regulation 2560 on cross-border payments, provide the harmonised legal basis for retail payments in Europe.

Today's second theme will look at competition and regulation issues that emerged in the integration process of retail payment markets. I am very pleased that Commissioner Neelie Kroes will deliver the keynote speech on this theme. The subsequent panel will focus on the role of central banks in shaping the future of retail banking and payments. Unlike for TARGET2 and TARGET2-Securities, the ECB and the Eurosystem have chosen not to approach the retail payments market as a system owner and operator – although some national central banks that are part of the Eurosystem have such operational role – but rather as a catalyst, supporting the market processes by using their technical and analytical expertise as well as consultative and cooperative contacts with the banking sector and other public authorities.

Tomorrow, we will look at the other challenging dimension that shapes the future of retail banking and payments, which is innovation. I regret to have to say that while the chip, the internet and the mobile phone have fundamentally changed the way we communicate in the

last 20 years, modernisation in the way we pay, be it as large companies or as individual retail clients, still have to catch up these developments. Therefore, I am pleased to see the focus on the requirements and expectations of large corporations and public administrations.

I wish you a fruitful conference, and I am confident that it will be another building block on our way to do what has to be done.

Thank you for your attention.