Gertrude Tumpel-Gugerell: Payments are becoming European

Speech by Ms Gertrude Tumpel-Gugerell, Member of the Executive Board of the European Central Bank, at the EPC SEPA Direct Debit launch event, Brussels, 13 October 2009.

*   *   *

SEPA Direct Debit launch

We are here today to celebrate the forthcoming launch of the SEPA Direct Debit (SDD). We are very pleased that this important step in the process of European integration towards a single payments area will soon be taken. On 2 November 2009 the SEPA Direct Debit will be launched by the European Payments Council. From November onwards, direct debits in euro will be possible from anywhere in the European Union and even beyond.[1]

A direct debit payment is considered to be one of the most convenient ways of paying bills, especially for recurring expenses, because customers can be sure of paying on time, provided that there are sufficient funds in their accounts, and companies can be sure of receiving the money on time. It is also one of the most efficient, because the collection process can be fully automated. It is also a very safe means of payment, and it is worth emphasising that the SDD will have a higher level of security and customer protection than some of the major existing domestic direct debits.

The SDD complements the SEPA Credit Transfer (SCT), which was launched as early as January 2008. Although it has been possible to make cross-border credit transfers for decades, the launch of the SCT marked the start of a new era, with faster transactions and lower costs. The advent of a European direct debit is a truly new payment service at a European level. The introduction of these two basic products has laid the foundations for a fully harmonised retail payments market. The SEPA (Single Euro Payments Area) project has already delivered its first results. These will also form the basis for innovative new developments in payments, in particular a pan-European online payment solution, as well as in mobile payments and electronic invoicing.

It is true that, when travelling or even living in a foreign country, one of the things that takes some getting used to is local payment habits and standards. When taking up office at the ECB in Frankfurt, I, too, had to open an extra bank account for my German payments and acquaint myself with German payment rules, standards and practices.

This experience is shared by many bank customers – both individual and corporate – who have accounts in more than one country or do business with companies in other countries.

There are therefore many benefits of a harmonised retail payments market with common instruments, i.e. SEPA. As 50% of the cross-border trade of euro area countries is with other euro area countries, small and medium-sized enterprises will benefit immensely from the harmonisation across national borders within the euro area. Also, large companies that operate in almost every European country, such as mobile phone operators, energy suppliers and petrol station chains, will gain from SEPA. For those companies, managing up to 27 bank accounts, 27 standards for electronic communication with the bank or 27 different sets of requirements for card payment terminals is a truly costly business.

The Eurosystem therefore continues to strongly support the creation of SEPA, in which "individuals and companies are able to make cashless payments throughout the euro area

---

1 SEPA comprises the countries of the EU plus Norway, Iceland, Liechtenstein, Switzerland and Monaco, as well as oversees territories of EU countries.

from a single payment account anywhere in the euro area, using a single set of payment instruments as easily, efficiently and safely as they can make them today at the national level".

SEPA is needed in order to move towards a more integrated, competitive and innovative payments market in Europe, which will bring substantial economic benefits.

Celebrating the SDD launch today is indeed very reassuring for the whole SEPA process, and for all the efforts that are going into this project, not least for us at the ECB, who wholeheartedly support the SEPA project. I am often asked the question: "Has the financial crisis made banks less likely to support the SEPA projects?" My response is usually that, as a result of the crisis, banks are once again focusing on their core business, which is attracting savings, providing loans and offering payment services. In terms of offering payment services, SEPA provides a competitive, efficient and innovative retail payments market in Europe. Less money is available for IT projects, but the business case for SEPA has not changed. I have noted that more than 2,500 banks have already signed up for the SDD service, which is a outstanding achievement, and one that few people had dared to hope for just eight months ago. Back then, the EPC was deliberating whether to launch the SDD on time, because many obstacles were still seen to be in the way. It also means that I can finally use my Austrian bank account for my German payments.

Still, despite the success of SEPA so far, there are major challenges ahead of us in the SEPA implementation process.

I would like to mention three areas, in particular. First, SEPA for Cards, second, the overall SEPA migration process and, third, the governance of the SEPA project in the future.

SEPA for cards

Card payments are growing in popularity. The recent "World Payments Report 2009"[2] confirms this. Despite the financial crisis, on a global basis, cashless payments increased by 8.6% to 250 billion transactions per year in 2008 and, of this growth, card payments are the strongest driver. Within the European Union, card payments reached a total of 29.5 billion transactions in 2008, likewise a growth rate of 8.6%.[3] This shows the immense potential of this method of payment in generating revenue for the financial industry through growth, even at a time when interchange fees are under pressure.

SEPA offers tremendous opportunities for a further harmonisation of the use of cards, making them an even more attractive means of payment. In essence, card payments need to be positioned as a real alternative to cash: efficient, fast and guaranteed. We are very pleased that progress is now being made with the initiatives to create an additional European card scheme. Some businesses are even being set up not far from here in Brussels.

SEPA migration

I will now turn to the second challenge, namely the overall SEPA migration process and the question of a possible end-date. While the use of SCT has been increasing steadily since their launch in January 2008, they had reached 4.5% of the overall credit transfer volume in August 2009.[4] Needless to say, this is far behind the figure for the legacy products and not really satisfactory.

---

2 Capgemini, RBS and EFMA, World Payments Report 2009, September 2009.

3 ECB, Payments Statistics (formerly known as the Blue Book) (see www.ecb.europa.eu).

4 ECB, SEPA SCT indicators (see http://www.ecb.europa.eu/paym/sepa/timeline/use/html/index.en.html).

However, there are some positive signs ahead: Public administrations in several countries are planning to migrate to the SEPA products later this year or in the first half of 2010, and companies with cross-border activities are expected to migrate in larger numbers after SEPA Direct Debit has also been launched in November 2009.

Will the migration process be quick enough by itself or does it require an extra push? Research has shown that a long period of maintaining dual systems is costly for all. So what will make industry and/or customers stop using the old products and switch to SEPA? You will remember that the SEPA process was only taken seriously by industry in reaction to an EC Regulation.[5] Although supporters of a SEPA migration end-date seem to be in the majority, opposition to the concept is not negligible. However, we have to realise that SEPA is not just about making life easier for European citizens and companies by removing obstacles to cross-border payments. SEPA is also about removing barriers to the single market, introducing more competition to the payments industry and speeding up innovation.

The Eurosystem will continue its efforts to foster a general understanding among stakeholders that setting a realistic but ambitious end-date for migration to SCT and SDD is a necessary step in order to reap the benefits of SEPA. Ten years after the introduction of the euro as the single currency, it is high time to complete the introduction of the euro in the field of single payment instruments.

SEPA governance

In connection with the migration challenge, the question arises as to the future governance of the SEPA project. So let me talk about this now. In the Sixth SEPA Progress Report, we suggested that improvements may be needed to the overall governance of SEPA. To be clear, I am not speaking about the governance of the EPC itself. Improvements in SEPA governance may be needed to foster the process towards a truly integrated retail payments market in Europe. These improvements are related, in particular, to stakeholder involvement, transparency and the SEPA migration progress. Is market self-regulation sufficient to find solutions for these issues?

The Eurosystem – together with the European Commission – recognises that a new, overarching body, consisting of a broad range of stakeholders, could tackle and resolve issues that are slowing the realisation of SEPA. But I want to repeat that this body would not replace the current arrangements. The EPC would remain responsible for the design of payment services. The new body, by contrast, would focus entirely on identifying key issues of concern to public authorities and other stakeholders. Moreover, it would define priorities and promote action. In addition, it would work on fostering a common understanding among users. As I have said, it should not by any means replace or hamper the functioning of the EPC, nor should it take over the dialogue with end-users on its precise schemes, frameworks and standards. Within the Eurosystem, we are currently working on the modalities for this “SEPA Council” while working together closely with the European Commission.

Conclusion

I will conclude by saying that it remains the goal of the Eurosystem to promote the advent of an integrated, efficient and innovative retail payments market in the euro area. The SEPA project should be as much a part of a bank’s core business as the provision of efficient payment services to its customers. Now that we have a single market for goods and services, we need a single market for payments to actually pay for these goods and services.

---

[5] Regulation (EC) 2560/2001 on cross-border payments in euro (recently revised by Regulation (EC) 3655/09).

SEPA is also necessary to complete the introduction of the euro as the single currency of 329 million European citizens and to foster financial integration in Europe.

The launch of the SDD marks a further step forward in the process of European integration towards a single payments area. I congratulate all those who contributed to this milestone.

Thank you!