

Gertrude Tumpel-Gugerell: The progress of migration to SEPA

Keynote address by Mrs Gertrude Tumpel-Gugerell, Member of the Executive Board of the European Central Bank, at the British Bankers' Association, 7th Annual Payments Conference, London, 23 November 2009.

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Thank you for inviting me to speak at the British Bankers' Association on the occasion of the 7th Annual Payments Conference.

140 years ago, on Monday 22 November 1869, one of the world's fastest, most technically advanced and also most beautiful merchant sailing ships was launched. Designed to be the first ship to bring home the new season's tea from China to London, the "Cutty Sark" plied the oceans for decades. The ship is still preserved today, and you can marvel at her in Greenwich, just 20 minutes from here.

On Monday 2 November 2009, just three weeks ago, the SEPA Direct Debit (SDD) was launched. I will not dare to speculate as to whether it is the world's fastest, most technically advanced and most beautiful Direct Debit scheme, but the advent of a European direct debit scheme provides a truly new payment service at the European level. We would like to congratulate all those who have taken part in its development, particularly the EPC for their valuable contribution to this success.

The SDD complements the SEPA Credit Transfer, which was launched in January 2008. With these two payment products launched, and with the Payment Services Directive (PSD) now in force, SEPA is well in place. However, not yet completed.

Hence, the keel has been laid for a single market for retail payments. And not just the single market for the euro area, but for Europe as a whole.

SEPA and also the Payment Services Directive (PSD) are standardising retail payments across the EU-27. So what does that mean for the UK market? The UK banking market is highly interconnected with the euro area. We also see that several UK banks are actively involved in the SEPA process. They have recognised that the implications of SEPA extend to their UK business too.

Ladies and Gentlemen, SEPA is not just about cross-border payments in euro and in continental Europe, it is about changing the retail payments infrastructure throughout the whole of Europe, including the UK, about bringing it up to a higher level of efficiency, quality and security. For example, the European PSD will significantly reduce transaction times to a maximum of three days and requires full transparency on the currency conversion. This will bring significant benefits to all bank customers – consumers and corporates, also in the UK.

Let me in the following give you three major achievements of the SEPA process and outline briefly the way forward of the SEPA project.

What has been achieved so far, and what are the next steps?

The SDD launch has been the greatest SEPA achievement this year, and perhaps even of the entire project. The preparations for the launch of SEPA Direct Debit have taken up a lot of the banking industry's time and energy. Discussions within the European Payments Council (EPC), the European self-regulatory body for retail payments, started as far back as 2002.

Acting as a catalyst for change and supporting the work of the European Commission and the industry, the Eurosystem has helped to successfully remove all remaining obstacles for the launch of SDD in November 2009.

The SEPA project has made a lot of progress after clarity was provided on the Multilateral Interchange Fees. In particular, in March 2009, a Joint Statement of the European Commission and the Eurosystem has outlined the way forward on the future SDD business model.¹ This was instrumental to a new Regulation which offers an interim arrangement for cross-border and domestic SDD interchange fees and, hence, was crucial for the EPC to conclude its work on the SDD.²

This new Regulation on cross-border payments also requires that all euro area banks that currently offer euro direct debits at national level must also be reachable for cross-border euro direct debits by 1 November 2010.³ By guaranteeing the reachability, we hope that this will provide a strong impetus to the market take-up of the SDD.

The second achievement in 2009 in the migration process to SEPA has been the close stakeholder involvement. Here – I think – that the EPC has made considerable efforts to involve stakeholders in the further development process of the SEPA payment schemes. For example, the EPC invited all stakeholders to put forward suggestions for amending the SCT, Core SDD and Business-to-Business SDD Rulebooks for the November 2010 releases. The outcome of this has received large support in a public consultation during summer 2009.

Still, this public consultation has also shown that stakeholders continue to see the need for improvements in the SEPA products. We welcome, therefore, that the EPC has organized dedicated workshops providing a discussion forum with their stakeholders on the issues raised in the consultation process.

Also in the area of cards, the EPC has established a “Group of Stakeholders”, focusing on standardisation and contributing to the maintenance and evolution of the SEPA cards standards.

I hear that these workshops and group had a good start and all the participants have shown themselves eager for a constructive dialogue.

Only briefly, I would like to highlight a third, albeit smaller achievement in the SEPA process in 2009. During this year, the security of payments has been more prominent on the European agenda. This topic had been a bit neglected in previous years, at least at the European level. Within the EPC, a “Good Practices” guide for the security of payments in the customer-to-bank domain has been published. There was considerable need for such a guide, especially in the field of internet banking, online payments and card payments. We have to realise that in today’s world information can too easily be accessed, stolen and used for fraudulent purposes. The costs of fraud may not have reached commercially unacceptable levels, but in some countries they have reached socially unacceptable levels. So, we very much welcome the EPC taking a stance on these issues.

The Eurosystem will also continue to monitor also this facet of the work on the integration of European payments. Improving information security, as well as preventing fraud should remain a key focus of attention in 2010.

Ambition needed: SEPA for Cards and eSEPA

A frequently asked question is whether the financial crisis has had an impact on the SEPA project and the pace of migration. During the financial crisis, banks’ retail payments business

¹ Joint Statement of the European Commission and the ECB on the future SDD business model, 24 March 2009.

² Regulation (EC) No 924/2009 on cross-border payments in the Community and repealing Regulation (EC) No 2560/2001.

³ For non-euro area banks the reachability deadline for euro direct debits is 1 November 2014.

has proven to be a solid and stable source of revenue. At the same time, I understand that the retail payments are also a costly part of banks' operations. The aim of SEPA is to make payments in euro more efficient, not just for customers but also for banks, which would strengthen the case for investment in the SEPA project.

Despite the financial crisis, cashless payments increased, on a global basis, by almost 9% to 250 billion transactions per year in 2008. Of this growth, card payments were the strongest driver.⁴ In the European Union, card payments reached a total of over 29 billion transactions in 2008, also growing at a rate of almost 9%.⁵ This shows the immense potential of this means of payment to generate revenue for the financial industry through growth, even at a time when interchange fees are under pressure.

In my view, SEPA offers tremendous opportunities for further harmonisation of the use of cards, making them an even more attractive means of payment.

But, besides the harmonization of card standards, more competition in the European cards market can bring additional benefits to consumers.

Therefore, the Eurosystem remains convinced that an additional European card scheme is needed. Three initiatives are under way: PAYFAIR, EAPS and "Monnet". The Eurosystem has maintained close contacts with all these initiatives to create an additional European card scheme.

We are pleased to see that one of the initiatives has recently started a pilot with a large merchant, and that another initiative is operational among some of its constituent schemes, especially for ATM withdrawals. We are hopeful that these initiatives, whether separately or jointly, will come to fruition in the near future.

In essence, for SEPA for Cards to become a success, card payments need to be positioned as a real alternative to cash: efficient, fast and guaranteed. This could and should be delivered by the already existing card schemes and the foreseen additional ones. However, this will not be enough. A successful SEPA for Cards also needs the harmonisation of technical standards, basic business rules and certification practices across schemes. Only this will bring an integrated cards market into effect.

SEPA by its nature of harmonizing the retail payments market will promote more competition and hence will be a key driver of innovation in the market. New developments have already taken off in the field of eSEPA. eSEPA means the provision of various retail payment services by means of electronic channels – such as internet – in order to offer benefits to payment service users in the form of easier access, better functionality and a more attractive user experience.

More and more companies and consumers operate online. Hence, the market needs to create European e-payment – or online – solutions, which will bring even more efficient and transparent trading at the retail level. For example, an "e-payment" is an internet banking payment. The web-merchant receives a payment guarantee confirmation in real-time and the goods can be released immediately. In addition, they have a security advantage, insofar as the merchant does not have to handle and store his clients' confidential banking details. We welcome that the EPC is currently developing a framework for the interoperability of such online payment schemes.

The Eurosystem strongly encourages the EPC to finalise the e-Payments framework in the near future. Moreover, we encourage the EPC to consider establishing a European e-payments scheme or to taking over one of the existing schemes.

⁴ Capgemini, RBS and EFMA, World Payments Report 2009, September 2009.

⁵ ECB, Payments Statistics (formerly known as the Blue Book) (see www.ecb.europa.eu).

Moving forward with an e-payments solution give a flying start to “SEPA for online payments”. Moreover, it could take the wind out of the sails of providers who make use of banks’ infrastructures but are not subject to the same strict security requirements. In my view, security is of crucial importance, especially for the online world.

Overall, e-SEPA online services would come to the great benefit of corporate customers and consumers. At the same time, e-SEPA will be an additional revenue source to the banking sector.

When can the payments industry expect to reach the full SEPA finishing line?

As I have outlined, the key implication of SEPA is that the whole economy – consumers, corporates **and** banks – will benefit from it. So how can we bring this project closer to success?

Let me mention two important ingredients, namely, first, a further improvement in the SEPA governance and, second, the necessity of a SEPA migration end date.

On first point: SEPA governance. The EPC clearly plays a pivotal role in organising the stakeholder involvement around the design of the SEPA products, currently the SCT and SDD Rulebooks, and the SEPA Cards Framework.

However, the governance of a project like SEPA requires that stakeholder involvement at the European level is made more balanced, bringing together stakeholders from all sides of the SEPA project. A new body could be created with a wide range of stakeholders represented in order to discuss and resolve issues that are hindering the realisation of SEPA.

Such a governance body is not intended to replace the European Payments Council, which is delivering useful work from the supply side. The main objective is to involve also the demand side and the relevant authorities as well. The European Commission is elaborating the possible modalities of such a “SEPA Council” and envisages the creation of a SEPA Council before the end of 2009.

On SEPA migration, challenges still lie ahead.

The use of SCTs has been increasing steadily since their launch in January 2008. By September 2009, they had reached 4.6% of the overall credit transfer volume.⁶

We also see some positive signs ahead: public administrations in several countries are planning to migrate to the SEPA products either in the remainder of this year or in the first half of 2010. And now that SEPA Direct Debit has been launched, companies with cross-border activities are expected to migrate.

Still, the current figures show: Further action is needed to fully migrate to the SEPA instruments.

An end-date for SEPA migration; has the self-regulatory process reached its limits?

This brings me to my second important ingredient for a successful migration to SEPA: An end date for SEPA migration. It is clear that maintaining dual systems is costly for all, not only for banks, but also for the SEPA users. Therefore, it is in the interest of all stakeholders to migrate quickly to the SEPA instruments. So what will make industry and/or customers stop using the old products and switch to SEPA?

A SEPA migration end-date for credit transfers and for direct debits would make clear that migration cannot take forever. The European Commission in collaboration with the

⁶ ECB, SCT Indicators (see <http://www.ecb.europa.eu/paym/sepa/timeline/use/html/index.en.html>).

Eurosystem is, therefore, investigating the possibility of a Regulation to facilitate the migration to SEPA.

The Eurosystem considers a legally binding instrument necessary for a successful migration to SEPA and hence fully supports such regulation. I also see a lot of support for this way forward in the market. Therefore, we should continue our efforts in setting a realistic but ambitious end-date for migration to SCT and SDD to reap the full benefits of SEPA.

Conclusion

Let me conclude. 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, making payments more efficient, introducing more competition to the payments industry and speeding up innovation. Hence, rapid SEPA migration would bring tremendous benefits to the European economy as a whole.

The single market for goods and services – created with the Maastricht Treaty 16 years ago – now needs a single market for financial services.

SEPA is removing the national barriers and setting the standard for the retail payments business in the whole of Europe, including the UK, and beyond. The harmonization of the retail payments market will also benefit the UK banks, corporates and customers by spurring efficiency and innovation.

Therefore, SEPA migration needs a further leap forward. This entails existing SEPA instruments, but also innovations such as eSEPA. We also need to be more ambitious in the field of cards, need to pay more attention to the security of payments, and we need a proper stakeholder involvement and governance.

In short, SEPA has to set sail and chart course to its destination for which you decide the cruising speed.

Thank you for your attention!