

## **Gertrude Tumpel-Gugerell: SEPA for cards – more than a symbol of SEPA's success**

Speech by Ms Gertrude Tumpel-Gugerell, Member of the Executive Board of the European Central Bank (ECB), at the Monnet Symposium organised by the Monnet Project, Madrid, 5 May 2010.

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Ladies and Gentlemen,

### **Introduction**

5 May is a historic date for European integration. 61 years ago today, the Treaty of London on the establishment of the Council of Europe was signed. The Council of Europe in Strasbourg is one of the oldest international organisations dedicated to facilitating European integration, with the focus on democracy and the rule of law. The Council of Europe created two symbols which were adopted by the European Economic Community in 1985 and are today used by the European Union: the flag of Europe and the European anthem.

The flag of Europe has become the principal symbol of the European Union. The circle and the number twelve – which is the number of stars positioned in a circle on the flag – has numerous associations with unity, such as the 12 hours on a clock, 12 months in a year, 12 signs of the zodiac and 12 semitones in an octave. Unity is also a crucial factor in the success of one of the biggest economic projects the European Union has ever seen: the establishment of one single euro payments area – SEPA. With the united efforts of the European banking community, the legislators and the central banking community, SEPA made a successful start with the introduction of the SEPA credit transfer more than two years ago and the SEPA direct debit last year. Of course, SEPA is far from complete. The migration to SEPA credit transfers and SEPA direct debits will take some time. I am confident, however, that with the setting of a realistic but ambitious end date, the pace of the migration will increase considerably.

For this reason, I have no concerns regarding the success of a SEPA for credit transfers or direct debits. However, SEPA is built on a third column too: SEPA for cards. Cards are the most commonly used payment instrument in the European Union, accounting for almost four out of ten transactions in 2008. Without the success of SEPA for cards, the project will not be complete. Very often SEPA for cards is associated with the establishment of an additional European card scheme. But SEPA for cards is about much more than that: it is about business rules and technical standards too.

### **SEPA for cards – business rules**

The business rules are set out in the SEPA Cards Framework (SCF) by the European Payments Council (EPC), as well as the ECB's "SEPA for Cards" report of November 2006.

Of course, every agreement is to some extent a compromise which tries to accommodate as many views as possible. That is not to say that there is anything wrong with a compromise per se. Without the ability to reach compromises we would, for example never have been able to agree on the design of the euro banknotes since, of course, every country believed its legacy banknotes to be the most beautiful. However, a compromise should not be too general leaving too much room for interpretation. I have already said on several occasions before that for me the SCF document is perhaps too general. I think the SCF requires further development, increased clarity and more detailed rules. Let me also recall that in the sixth SEPA progress report we proposed the creation of a card transaction processing

framework.<sup>1</sup> This would set out the business rules for card schemes and processors with regard to the processing of SEPA card transactions.

But European projects and initiatives do not relieve individual stakeholders of the responsibility to contribute to European integration.

Major efforts by individual card scheme providers are needed too. Although work has already started in some areas, it is far from finished. A number of tasks that I have highlighted on other occasions before are still outstanding:

- the effective separation of scheme management from processing entities in order to overcome barriers to entry and to contribute to fairer and greater competition between card schemes, as well as between processors;
- the charges or reporting requirements that some schemes impose on issuers and acquirers for transactions carried out with cards bearing their brand, even if it was not used in the transactions;
- the setting of the brand that will be used at terminals, without giving the retailer and/or cardholder any choice; and
- the rule that in cross-border transactions, it is always the interchange fee of the country of the merchant that applies.

Europe is not the only region to recognise the importance of clear business rules for the proper functioning of the cards market. Less than a month ago the Canadian government released a code of conduct for the credit and debit card industry in Canada, which promotes fair business practices and ensures that merchants and consumers understand the costs and benefits associated with credit and debit cards. This follows similar regulatory initiatives in the United States and significant efforts made in Australia, New Zealand and South Africa. In Europe, strong public intervention is not envisaged for the time being. It is up to the EPC and individual card schemes to create the business rules which are needed for a smooth functioning of SEPA for cards.

### **SEPA for cards – technical standards**

Business rules are only half the battle for a SEPA for cards, as technical standards are needed too. Last December the EPC published an updated version of the SEPA Cards Standardisation Volume. This “Book of Requirements”, as it is now called, builds on the SEPA Cards Framework. The objective of the document is to lay the foundations for the harmonisation of standards in SEPA. It provides the basis for the SEPA standards that are needed so that “any SEPA card could technically work at any SEPA terminal”.

The ECB welcomes the EPC’s commitment to ensure that the Book of Requirements continues to develop in close dialogue with stakeholders in the SEPA cards market, who are represented in the EPC Cards Stakeholders Group established last year.

The evolution of the Book of Requirements will also facilitate and guide the market adoption of the detailed standards that various market initiatives have developed or are developing. This is an important step towards interoperability, security and market access. Without it, there is a risk that technical fragmentation would remain or even be reintroduced in Europe – something that none of us wants.

Another prerequisite for SEPA for cards is a certification framework that inspires trust, ensures an appropriate and equivalent level of security for cards and terminals, and provides

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<sup>1</sup> Processing relates to the authorisation of card transactions, as well as their subsequent clearing and settlement.

“one-stop shopping” for manufacturers of cards and terminals. Card scheme providers have made significant progress over the past year, and are cooperating in the Common Approval Scheme (CAS) initiative, and I am looking forward to seeing a clear EPC position, especially on governance aspects, in this field.

Governance is in fact one of the key components in the SEPA for cards project: setting requirements and promoting standards is important, without a doubt. But, from a European perspective, it is strategically necessary for Europe to take a more coordinated approach towards global standard-setting bodies, such as ISO or EMVCo, and that Europe starts to speak with one voice. Giving the EPC, acting on behalf of the European payments industry, a say in these bodies would be a very good way to achieve this aim.

## **European card scheme**

Since 2006 the Eurosystem has had a great deal to say on the subject of the governance of card payments in Europe. In our sixth SEPA progress report we clearly stated that the “Eurosystem expects at least one additional European card scheme to emerge that meets the requirements of cardholders, banks, merchants, competition authorities and the Eurosystem”. Of course, there are Visa and MasterCard, and I would like to emphasise how essential they are to Europe, since they are currently the only schemes that offer a pan-European card payment solution. But we also need a sufficient degree of competition. The reasons for this call for an additional European scheme are well known and are economically well-founded. The main economic rationale is the possible lack of competition should national card schemes be wound up in the years to come. Some small national schemes, such as the Dutch and the Finnish schemes, are being replaced by international ones and they are unlikely to be the last. Moreover, card payments are increasingly substituting for cash payments in the day-to-day lives of a growing number of European citizens. With this increasing importance, any mispricing of card payment services would have a major impact on each and every European and on the European economy as a whole. Therefore, sufficient competition for such an important means of payment is absolutely crucial.

Sometimes it is worth looking beyond the borders and seeing how other regions have addressed challenges like those we currently face in Europe. China, for example, launched an independent bankcard brand and established an international payment brand: China UnionPay (CUP). CUP is today accepted in 29 countries and regions in Europe, as well as approximately 60 countries in America, Africa, Oceania and Asia. Two of the world's largest economies are expected to follow with the creation of an additional card scheme: namely Russia and India.

So why not follow these examples and establish an additional card scheme? Let me reiterate the importance of the international schemes currently present in Europe. Even with the establishment of an additional European card scheme they are likely to play an important role: for example, in co-branding to promote the global acceptance of an additional European card scheme.

Currently there are three additional card scheme initiatives, one of which is Monnet. Each of these initiatives has its own strengths and weaknesses. Of course, there are still many issues to be resolved – finding a proper financing model being probably the most important one from the point of view of banks. We should not overlook the fact that competition authorities have already provided some guidance in this context, although I am aware that it does not satisfy many banks. Nevertheless, the agreement between Visa Europe and the European Commission, which was announced last week, has brought some further clarity to the area of card payments.<sup>2</sup> Naturally, the most obvious component of a financing model are

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<sup>2</sup> Visa Europe has proposed to reduce to 0.20% the maximum weighted average MIF for all cross-border transactions and for national transactions in a number of Member States using debit cards. It also proposes to

revenues. However, a financing model is not necessarily restricted to the costs and revenues linked to card payments. It may be worth analysing possible effects on other areas of business too. The reduction in cash handling costs could, for example, form an integral part of the business case when banks evaluate their involvement in one of the initiatives for a European card scheme. I admit that this is far from being an easy task, however, no one ever said that it would be easy to achieve a goal as challenging as the creation of an additional European card scheme. Now all parties involved in the various initiatives need to prove their commitment and determination. Therefore, I appreciate the fact that Monnet seems to be making great strides and I am looking forward to learning about the next concrete steps and milestones of the project.

## **Conclusion**

I started with the Council of Europe and its important contribution to the European identity with the flag of Europe and the European anthem. As you know, the anthem is based on Ludwig van Beethoven's "Ode to Joy" from his Symphony No 9. This is the final symphony that he completed and it is generally considered to be his masterpiece. When it was first performed on 7 May 1824 in Vienna it received five standing ovations. Even though the completion of SEPA is extremely unlikely to receive such enthusiastic applause from the European public, it would be a great achievement with real benefits. But without an additional European card scheme, SEPA will remain an unfinished symphony.

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maintain and further develop measures which will increase transparency and competition in the payment cards market. This was welcomed by European Competition Commissioner Joaquín Almunia (see: <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/462>).