

Gertrude Tumpel-Gugerell: SEPA – a busy year is coming to its end and another exciting year lies ahead

Speech by Ms Gertrude Tumpel-Gugerell, Member of the Executive Board of the European Central Bank, at the Next Generation Cards & Payments Conference, Brussels, 25 November 2010.

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Good morning ladies and gentlemen,

Introduction

Walking across the Grand Place and around the Bourse you can see busy preparations under way for this year's Christmas market. I have been told that it will be opened tomorrow and exhibitors from all over Europe will be selling their goods. The guild houses and Town Hall will be beautifully illuminated and decked in festive garlands and I am sure that the Christmas song "Silent Night" will be played. In fact, today is the birthday of Franz Xaver Gruber, an Austrian primary school teacher and church organist who composed "Silent Night" at the beginning of the 19th century. On Christmas Eve 1818 "Silent Night" was performed for the first time, in a chapel in Oberndorf, near Salzburg and subsequently made its way throughout Europe and to the rest of the world.

Talking about Christmas reminds us that 2010 is slowly but surely coming to an end. As in every year, the media will soon be producing reviews of the year's events. When we look back at what has happened in the field of payments, it is obvious that Europe has invested a great deal of effort and substantial progress has been made. All of us have contributed to and are familiar with what has been accomplished in 2010. I will therefore refrain from listing our past achievements but concentrate on the things that remain to be done. Let us therefore start to think about our New Year's resolutions for 2011.

New Year's resolution number one: let's define a SEPA migration end date

There is a consensus that an end date is needed for the migration to the SEPA credit transfer (SCT) and SEPA direct debit (SDD). Throughout 2010 representatives from almost every stakeholder group have been calling for a defined end date. Just recently a study conducted by BearingPoint revealed that more than 80% of the banks surveyed consider a binding SEPA migration end date to be necessary. In fact, the majority are in favour of an EU regulation to set one.¹ Of course it is no secret that, despite this general agreement, the details of such a regulation have been widely debated since the summer. For this reason, I had welcomed the European Commission's decision to organise a public hearing on the issue, which took place last Wednesday.

We in the Eurosystem have been very explicit in our comments on this topic and we have been calling for a regulation setting a migration end date for SCT and SDD. Indeed, we have gone one step further and have announced preferred dates, i.e. the end of 2012 for credit transfers and the end of 2013 for direct debits. When it comes to the question of which payment instruments should become the credit transfer and direct debit schemes used for euro payments in the EU, for me it is obvious that the answer is the SCT and SDD. This is, in fact, the position of the Eurosystem, which was clearly communicated in the seventh SEPA

¹ The survey involved 42 European banks in nine countries. See the press release (in German) available at: http://www.bearingpoint.de/PMI_SEPA_081110.pdf

progress report. Of course, it is one thing to set a goal, but it is far harder to achieve it. However, I am confident that the European Commission will make this possible through a legislative proposal. Despite the debate surrounding the end date in the past few weeks, we should not forget that we all share the same goal: we all want to make SEPA a reality. Of course, SEPA will only be a success story if it goes beyond credit transfers and direct debits. This brings me to my next New Year's resolution:

New Year's resolution number two: let's establish the requirements for a competitive cards market

Any cards market should meet a number of requirements in order to facilitate competition and efficiency. The principle of separating card scheme management from processing entities is one of the core elements of SEPA that aims to guarantee open access. The SEPA credit transfer and direct debit schemes are built on this principle; it should be applied in the cards market too. This would give banks a range of options to choose from as regards the processing of card payments.

To allow for the efficient processing of card payments in SEPA, the same set of message standards as used for the processing of direct debits and credit transfers should be adopted, i.e. ISO 20022. To bridge the gap that exists between this strategic vision and the reality, a framework for the processing of card transactions should be developed and the processing infrastructure providers must subsequently develop the rules and standards that are needed in order to establish technical interoperability for card payments.

Another important issue is cards standardisation, which is crucial to ensure the interoperability and harmonised use of cards across Europe. In the area of standardisation, there is a clear separation of responsibilities. First, the European Payments Council (EPC) is responsible for the strategic vision and business rules for cards. Second, the Cards Stakeholders Group is responsible for establishing functional, security and procedural requirements. Third, various market initiatives have developed implementation standards and specifications for the various domains of card payments. This is very welcome; however, work on the implementation of these specifications is lagging behind and should be accelerated.

In the field of security certification for cards and terminals, a set of implementation specifications have been developed by the Common Approval Scheme (CAS). However, governance-related aspects of the SEPA security certification framework are still under discussion. Therefore, we urge the EPC and CAS members to swiftly agree on concrete proposals for a permanent governance structure with regard to security certification for cards and terminals. Last, but not least, I would like to stress that, from a European perspective, it is of strategic importance to adopt a more coordinated approach to global standard-setting bodies, such as the ISO and EMVCo.

These requirements should lay the foundation for a competitive European cards market. However, I personally believe that the European cards market would also benefit from the power of choice. Therefore, a duopoly in the European cards market is not the outcome that I would prefer to see for the SEPA project, which brings me to New Year's resolution number three.

New Year's resolution number three: let's move forward with an additional European card scheme

The Eurosystem has been calling for an additional European card scheme for four years. Therefore, we are closely monitoring the work of the three initiatives that have been launched. It is important to emphasise that we have not selected any "favourite" out of the three projects, but treat all three equally. All three face some of the same challenges: the

main challenge is certainty as regards the potential business case. Some clarity has been provided with regard to the sensitive issue of multilateral interchange fees (MIF) thanks to the agreements reached by the EU Commission with VISA and MasterCard. However, the market asks for more certainty and it may be that this must ultimately be provided in the form of a regulation. I would strongly urge the appropriate authorities to work on this issue so that the clarity needed at the European level can be provided. An additional European card scheme – which is as safe and efficient as the best performing schemes today – is a necessary element of an integrated and competitive cards market.

New Year's resolution number four: let's innovate

Europe is still a patchwork of national online markets, and Europeans are prevented from enjoying the benefits of a single digital market. Traditional payment instruments still dominate payments for e-commerce. However, they were not designed to cope with the needs of the online world and often cannot be used for cross-border transactions. Among these payment instruments, cash on delivery, credit transfers upon receipt of an invoice and the provision of card credentials to merchants play an important role.

In all but a few countries, card transactions based on secure payment protocols and e-payments based on online banking are still in the minority or are only used for domestic transactions. We have to ensure that Europe does not lose any more ground in e-commerce, compared with the United States and emerging online markets. Therefore, there is a clear need for efficient, low cost, secure and readily available online payment solutions throughout Europe – and ideally beyond. The potential for online payment solutions is great enough to offer scope both for secure card payments and for e-payments based on online banking. The ECB strongly supports the emergence of SEPA-wide online e-payment solutions, such as those that already exist at the national level, for example in Germany, Austria and the Netherlands. In my view, European wide implementation of such innovative ideas is very much needed.

Both increased security for “card-not-present” transactions and the introduction, throughout Europe, of e-payments based on online banking will provide more payment options for users. And such developments will also address a problem that greatly concerns central banks: safety. I firmly believe that for “online shopping” the payments industry needs to deliver a solution that permits customers to pay for their purchases in a safe way. This brings me directly to the last of my proposed New Year's resolutions:

New Year's resolution number five: let's not forget about security

The security of retail payments is key to ensuring that consumers and businesses place their trust and confidence in SEPA. The risk-based approach applied by individual banks may not be sufficient to achieve the level of security that is required at the aggregate industry level. The reason for this is that commercial risk tolerance may differ from social risk tolerance. In the seventh SEPA progress report we dedicated a chapter to the topic of security. By sending a number of ambitious messages we have ensured that the necessary attention will be paid to this topic. One of these messages was our expectation that the cards industry in Europe will issue “chip-only” cards from 2012. But if the industry decides to retain the magnetic stripe on cards for practical reasons, we would ask that any data enabling the processing of magnetic stripe transactions should be removed. This should ensure that sensitive account information can no longer be copied. The current levels of fraud clearly show that something needs to be done urgently in this respect.

The increasing level of card-not-present fraud carried out over the internet can be addressed by the introduction of secure payment protocols (e.g. 3D Secure or virtual cards). To encourage the use of such security measures, a liability shift – which has been used, for example, as an incentive for EMV migration – could be applied.

Clearly, SEPA requires a harmonised minimum level of security for retail payments to ensure transparency and a level playing field. In order to achieve this, we need to have more clarity about the security requirements as well as about the actors involved in setting these requirements. We have recently launched the idea to set up a Forum for Security Issues and have received a positive feedback from banks. Such a forum would monitor market developments. In addition it could enable the relevant authorities, including banking supervisors and central banks, to align their expectations on security. The Eurosystem is currently investigating what could be the precise mandate and composition of such a forum.

Conclusion

I have to admit that these five New Year's resolutions are quite demanding. But I believe they are essential for the SEPA project. If all of us continue to work on SEPA with the same level of dedication as this year, we can accomplish all of them.