Gertrude Tumpel-Gugerell: Transformation of the banking business and its impact on retail payments – governance, efficiency and integration

Introductory remarks by Ms Gertrude Tumpel-Gugerell, Member of the Executive Board of the European Central Bank, for the panel session at the conference "The future of retail payments: opportunities and challenges", Vienna, 12 May 2011.

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Ladies and gentlemen,

It is a great pleasure for me to be here in Vienna – the town where I studied and where I spent a good part of my life. It is also a great pleasure to be here at this conference, which has been organised by the two central banks that have shaped my professional career – the Oesterreichische Nationalbank and the European Central Bank. And, last but not least, it is also a great pleasure for me to chair the first panel session, which brings together five renowned representatives from the public and private sector.

From the public sector, I would like to welcome (in alphabetical order) Mr Giovanni Carosio, Member of the Governing Board at Banca d'Italia, Ms Feriha Imamović, Vice Governor at the Central Bank of Bosnia and Herzegovina, and Ms Júlia Király, Deputy Governor at Magyar Nemzeti Bank. From the private sector, I am pleased to welcome Mr Rainer Hauser, Member of the Management Board at UniCredit Bank Austria, and Mr Bertrand Lavayssière, Managing Director at Capgemini. I hope we will have an interesting discussion, and I am looking forward to hearing your views on our discussion topic.

The theme of this panel session is the transformation of the banking business and its impact on retail payments. Let me start my introduction with the observation that almost as we speak, Vienna is celebrating the Wiener Festwochen, a festival of music and the performing arts. It will feature 41 productions from 23 countries – an impressive demonstration of the internationalisation and universality of art.

As is the case for art, the banking business has become more and more international. This is demonstrated by the increase in foreign assets and liabilities in banks' balance sheets. In Europe, the internationalisation has been driven to some extent – but not exclusively – by the economic and monetary integration of the EU. Advances in information technology have also contributed substantially in enabling banks to offer financial services not only at national level but to foreign businesses and individuals, too.

The expansion of the potential customer base has opened possibilities for synergy effects and efficiency gains. It has also made those banks that succeeded in creating an international customer base less vulnerable to local shocks. However, the success of the internationalisation of the banking business also depends on a number of factors such as legal certainty, technical standardisation, sound governance and, last but not least, a readiness to discard some national models and habits.

In the area of retail payments, the groundwork necessary to enable European integration has been largely done. The Directive on Payment Services (PSD) and the Regulation on cross-border payments provide the legal basis for the provision of pan-European payment services. The payments industry – represented by the European Payments Council (EPC) – provided technical standardisation by developing payment schemes and frameworks, although standardisation in the area of cards still needs to be further pursued. The European Payments Council also provided the governance structure for the design and implementation process of the payment schemes and frameworks.

It is at the final stage, at the point of migration to the payment schemes and frameworks, that the integration process has stalled. SEPA migration as a self-regulatory process has not achieved the required results. The banking industry's self-imposed deadline of December

2010 for SEPA instruments to be in general use has not been met. It would be simplistic to only blame the banking industry for this. As we all know, it takes two to tango, and migration can only succeed if the supply and demand sides share the same aims. Thus, one of the lessons learned is that the involvement of the demand side in the governance of the integration process is necessary to facilitate migration.

Last but not least, the integration process at European level requires a readiness to discard some national models and habits. Probably this is the most difficult part of the transformation of the retail payments market. The media in some countries report that bank customers cling to familiar national payment instruments and national account numbers, which they are loath to change. However, if change is made mandatory, as was the case with the cash changeover to the euro, the process is often even faster than necessary. And when it comes to adopting new technological devices – the mobile phone, MP3 players, tablet PCs – people embrace them quickly. Thus, I expect that the adoption of the proposal for a SEPA migration end date will finally unlock the potential for integration and efficiency gains in the European retail payments market.

In the conference on retail payments' integration and innovation held at the ECB two years ago, we established that despite the financial crisis, the retail payments business has been resilient, providing reliable and regular revenues. Before the crisis, the fact that the retail payments business is a substantial source of revenue in banking, accounting for up to 25% of total bank revenues, was often neglected. Now, the observation that banks with a balanced business model have been in a better position to cope with the crisis has led to a better recognition of the importance of retail banking and retail payments.

Still, despite their resilience and stable nature, retail payments revenues cannot be taken for granted. They are under pressure from different directions: increasing competition, substantial investment needs to keep up with customer demands and technological progress, and a more decisive stance on the part of competition authorities. With regard to the pricing of payment products, payment service providers have to face the paradox that on the one hand, they are being pressurised to ensure more price transparency, and on the other, direct pricing would probably result in an increase in pricing that would neither be accepted by the customers nor by the regulators.

The financial crisis has not only led to a better recognition of the importance of retail banking and retail payments: it has also sharpened the focus on banking governance. In recent years, many banks were giving increasing priority to the interests of the shareholders. Consequently, it can be argued that the interests of the clients, and thereby of society as a whole, slipped too much into the background. In short, the public service function of banks, which is particularly relevant in the field of payments and loans, has been neglected.

Now, it is time for me to hand over to the panellists. I am interested to hear your views on the key issues relating to the transformation process of the banking business, in particular as regards retail payments. What are the prerequisites for and barriers to successful integration in the field of retail banking and payments? What does an efficient retail payments market look like? Which governance models are appropriate to steer the retail payments market?