

Peter Praet: A new voice on a familiar topic – SEPA from his perspective

Speech by Mr Peter Praet, Member of the Executive Board of the European Central Bank, at the off-site meeting of the European Payments Council, Brussels, 31 August 2011.

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Ladies and gentlemen,

Thank you very much for inviting me to speak at your off-site meeting today. From 2004 to 2010, with only one exception, Ms Gertrude Tumpel-Gugerell presented the ECB's views and expectations regarding the Single Euro Payments Area (SEPA) to the EPC Coordination Committee. Today, I have the honour of taking over. I am committed to continuing the fruitful dialogue that has been established between the ECB and the EPC over the years in the same spirit of openness and trust.

Let me first discuss the SEPA project as it stands now in comparison with the situation in mid-2010. Then, I will make some remarks on cash. Subsequently, I will focus on three issues that are important for the retail payments market in general in coming years:

1. innovation;
2. competition; and
3. globalisation.

In this context, it is essential that we keep up a continuous dialogue with all stakeholders, including that with the EPC, a very prominent actor.

2010–11 review: end-date for migration to SEPA, competitive European cards market, security of retail payments

Where do we stand? In 2010, the SEPA project was largely dominated by the intense debate on the proposal to set an end-date for the migration to SEPA by regulation. A great deal of time and many resources of both public authorities and the financial sector have gone into shaping the proposal by the European Commission. This has not been an easy process, and there has been some controversy between the European Commission and the financial industry with regard to the contents and coverage of the regulation, particularly the technical requirements for credit transfers and direct debits and the direct debit interchange. The Eurosystem expects the SEPA credit transfer and the SEPA direct debit, which can comply with the technical requirements, to become *the* credit transfer and direct debit schemes used for euro payments in the EU. Where direct debit interchange is concerned, the draft regulation now provides legal certainty.

Despite the controversy, we all share the conviction that determining a clear deadline for migration to the SEPA credit transfer (SCT) and the SEPA direct debit (SDD) is necessary to bring SEPA to a successful conclusion. Thus, I would encourage you to focus on what lies ahead, and not to be dissuaded from pursuing your initiatives and projects.

As you know, one of the areas that needs to be driven further forward by the EPC is the standardisation of cards. Last year, Ms Tumpel-Gugerell discussed three elements that are required for a move towards a competitive European payment card market:

- first, the development of an additional European card scheme;
- second, the separation of card schemes from processing entities; and
- third, card standardisation.

Progress in the development of an additional card scheme has been considerably slower than hoped for. The slow progress in this area gives further weight and importance to card standardisation, which should ensure interoperability and the harmonised use of cards across Europe. Here, I would like to emphasise that the EPC should provide guidance for standardisation initiatives in the different domains (card-to-terminal, terminal-to-acquirer, acquirer-to-issuer, and certification and type approval) on which standards are to be used for SEPA. Equally important, the EPC should also provide guidance on how to implement them.

With regard to the SEPA Certification Framework, the ECB has submitted some recommendations to the EPC on how to facilitate agreement between the different stakeholders. Now that the summer break is over, we would expect to receive your feedback on these recommendations in the near future.

The third issue addressed last year was the security of retail payments. Here, the establishment of the SecuRe Pay Forum, which aims to deliver concrete recommendations on card-not-present and online payments by the end of this year, should contribute to the creation of a level playing field with a high level of security in Europe. The ECB welcomes the fact that the EPC regards the prevention of card fraud as one of its top priorities and that it has defined measures to reduce fraud and protect payment data. However, the market should be more ambitious and follow the Eurosystem's recommendation to issue "chip only" cards and, in addition, to start with implementing intermediate fraud prevention measures such as the regional blocking of card transactions. In this respect, it is encouraging that EUROPOL has called on the United States to close this loophole for fraudulent card transactions. The recent announcement of VISA Inc. to accelerate migration to EMV in the United States and to institute a shift in liability for counterfeit card-present point-of-sale transactions can thus be considered a real breakthrough.

Cash

Before I turn to innovation, let me first say a few words about cash, taking into account that banknotes are issued by the Eurosystem itself. In practice today, cash is still by far the most frequently used means of payment for retail (i.e. point-of-sale) transactions in the euro area. Society is neither willing nor ready to do without cash.

The continued availability of cash as an easy-to-use, reliable and cheap means of payment requires a resilient and efficient cash cycle. Indeed, it is likely, both with respect to resilience and with respect to efficiency, that the bar in this respect will be raised in the period ahead.

Against this background, I welcome your efforts in this area. The standardisation and upgrading of the cassettes used for the storage and transportation of banknotes, which you will discuss tomorrow, is a case in point, serving both the efficiency and the resilience of the cash cycle.

I know that my colleagues in the cash area appreciated the constructive cooperation that you have been able to establish over the years, and they look forward to seeing further progress on these issues.

Fostering innovation: 21st century ways to pay

25 years ago, nobody would have expected that the way we work, communicate and access information and entertainment would be changed as profoundly as it has through the invention of the chip, the internet and the mobile phone. However, the diffusion of innovations in retail payments has been strikingly slow. Technological progress, which has revolutionised work, communication and entertainment media, has not had a major effect on means of payment and payment habits. The methods used for payments in Europe are still deeply rooted in the 20th century.

There are several reasons why innovation in retail payments is difficult. Consumer demand is a very significant factor in payments – the response of the general public to any new means of payment can make it or break it. It has often been argued that many consumers dislike change. Recently, the Payments Council in the United Kingdom had to cancel the target for the possible closure of the cheque clearing in 2018 due to complaints from stakeholders. Still, we should not forget that neither consumers nor merchants can generate demand for what is not on offer – the notorious chicken and egg problem. Furthermore, on the supply side, providers are confronted with the first-mover disadvantage: network externalities, the lack of critical mass and switching costs. These factors make it important that innovation is tackled in a coordinated way and that an innovation-friendly legal and regulatory environment is ensured.

It is important that these factors are considered when talking about innovation. Still, in many constituencies, the strong persistence of cash usage may not be driven only by choice, but also – due to the factors discussed above – by the absence of choice. This is particularly relevant for the unbanked or underbanked population. Innovation in retail payments might be a tool to increase financial inclusion – not only in the developing countries.

Absence of choice is also manifest in e-commerce/internet shopping. The ECB has observed that in many constituencies, the payment instruments offered for online payments are not those most suitable for remote payments. To give you a practical example, I would like to mention a web merchant in Germany that offers either prepayment, cash on delivery or payment by *Sofortüberweisung* (an overlay service). Such slim choice and lack of competition is clearly an obstacle to the growth of e-commerce in Europe, and I can only reiterate the Eurosystem's call for the banking industry to engage in the delivery of suitable SEPA-wide online-e-payment solutions. Otherwise, banks may run the risk of being crowded out by other providers that have already entered the market. At the same time, merchants – both in the virtual and in the brick-and-mortar sphere – should recognise that it is in their own individual and common interests to have a secure means of payment and to adopt the necessary measures.

Fostering competition: striking the right balance between cooperation and competition

I would now like to discuss the prerequisites for fostering competition that benefits innovation in means of payment – and retail payments in general – through SEPA. The Eurosystem has argued from the outset that the harmonisation of standards and rules for retail payments is necessary to overcome the current fragmentation of payment instruments and infrastructure in Europe. Giving greater choice to European businesses and consumers, and opening up a larger market to payment service providers, will boost competition. The EPC plays a pivotal role in this process, and therefore also has responsibility for bringing the requirements of the other stakeholders in SEPA on board.

It has always been clear that, as a network industry, payments can only be processed smoothly if common standards and rules are available. It is also clear that standards and rules should be open and non-proprietary so as to prevent closed markets. But it is also clear that the scope for cooperation needs to be delineated carefully from that for competition.

The optimum balance between the cooperative and the competitive space is as hard to find as that between efficiency and consumer convenience, on the one hand, and security and reliability, on the other. It is of paramount interest of the public authorities that the right balance is struck between these poles. Generally, it is more efficient to foster competition on the basis of common standards than to foster competition for standards. However, it has to be ensured that these common standards do not end up as being the lowest common denominator. Therefore, public authorities regard it as their responsibility to look carefully into this balance between competition and cooperation, and interfere whenever required. That having been said, I would like to reiterate the Eurosystem's support for the creation both of

rulebooks and frameworks for retail payments in general and of a framework for, and measures to ensure the interoperability of, existing online e-payment schemes in particular, provided these are based on transparent and open standards that allow other communities/schemes to join if they wish to do so.

Fostering European direction at the global level

In my final point, I will take a further step back from the level of detail of the discussion of SEPA. In the day-to-day business, we tend to focus, to a large extent, on the difficulties we are facing along the road towards making SEPA reality. When reading the documentation on SEPA, I have often found the phrase “yes ... but”: yes, the indicator for migration to the SEPA credit transfer is growing, but not fast enough; yes, the SEPA direct debit is available, but it is hardly used; yes, the proposed regulation will fix a migration end-date, but it is too early; and so on. Of course, we have to deal with problems and obstacles, but for a few minutes at least, let us focus, for a change, on what has been achieved.

SEPA is an unprecedented initiative to harmonise cashless retail payments across countries, with the added difficulty of replacing existing and widely accepted national payment instruments. SEPA is not limited by the borders of either the euro area or the EU. Iceland, Norway, Liechtenstein, Switzerland and Monaco are part of SEPA, enabling cashless euro payments under the same basic rights and conditions for their citizens and businesses as in the EU. And the impact of SEPA clearly goes beyond Europe. International initiatives such as the International Payments Framework (IPF) see the SEPA schemes as a blueprint for developing their own schemes. Even in China, bankers know that SEPA does not stand only for the Chinese State Environmental Protection Administration, but for a pan-European initiative that they are watching with great interest. All this shows that we are on the right path, and that we have an international role to play in retail payments.

However, this needs to go both ways. Particularly in the area of standardisation, the coordinated presence of European payment service providers, schemes and processors is required to ensure that changes in global standards that may affect SEPA schemes, frameworks and guidelines are identified in a timely manner. In the 7th SEPA Progress Report, the Eurosystem identified a strong need for the direct and coordinated involvement of the European payments industry in global card standardisation bodies. In this respect, we welcome the EPC's presence on the advisory boards of EMVCo and PCI, and the negotiation of Memoranda of Understanding with these two entities.

Conclusion

With the publication of the 7th SEPA Progress Report in October 2010, the Eurosystem, in its role as catalyst, provided analysis and guidance on the way forward for SEPA in the forthcoming period. In today's speech, I have discussed some factors at a broader level: innovation, striking the right balance between the cooperative and the competitive space, and the positioning of European retail payments at a global level. To drive the future development in retail payments, payment service providers and public authorities/regulators will have to be able to respond proactively to these factors.

The three “Es” – the European Payments Council, the Eurosystem and the European Commission – largely favour the integration and modernisation of the retail payments market. While there are sometimes differences in their understanding of how best to achieve these goals, I am confident that we have managed, and will continue to manage, to successfully drive our vision of SEPA forward.

Thank you very much for your attention.