

## **Yves Mersch: Growth potential and competition – what lies ahead for card payments?**

Speech by Mr Yves Mersch, Member of the Executive Board of the European Central Bank, at the Bank of France Conference on “Card payments in Europe – latest trends and challenges”, Paris, 18 January 2016.

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### **Introduction**

Besides cash, cards are the most widely used payment instrument in Europe. As regards electronic payment instruments as a whole, card payments have been on a strong and steady growth path, with the number of card transactions in the European Union having almost quadrupled in the last 15 years.

In France, card usage is well above the EU average. Areas with an even stronger card usage (and, correspondingly, a lower share of cash payments) are the Nordic countries, the Netherlands and Great Britain. In those countries, a preference for cards over cash is often highly visible in shops, with merchants often actively encouraging card usage by means of signs or other communication.

While cards are the predominant electronic payment instrument, it should be noted that cards – like cash – were initially designed for face-to-face payment situations. Given the strong growth in e-commerce, the necessity of finding appropriate and innovative solutions for new payment situations, i.e. internet or mobile payments, has become apparent. The incidence of fraud related to purchases made over the internet, which involve “card-not-present” (CNP) transactions, has been a source of concern and needs to be addressed by appropriate security measures – I will discuss this in more detail later. In general, innovative payment solutions, regardless of whether they are based on cards or other payment instruments, will have an impact on payment behaviour and the usage of cards and other traditional payment instruments in the years to come.

Nevertheless, there is no doubt that card payments are here to stay. I still see a strong growth potential for card transactions, in particular in those countries in central and south-eastern Europe where people largely rely on cash. Yet, even a “card-minded” country such as France can realise further efficiency gains in the area of retail payments by increasing its number of card payments.

Migration to the Single Euro Payments Area (SEPA) for credit transfers and direct debits was a major milestone in European retail payments integration. SEPA for cards is the next logical step in that process. To this day, consumers and merchants, but also banks and other payment service providers, still encounter obstacles or experience geographical differences when making and accepting card payments. We are not yet there with the SEPA for cards, i.e. a harmonised, competitive and innovative European card payments area.

Without wanting to pre-empt the discussions at this conference, I would first like to highlight three areas that are critical to the realisation of the SEPA for cards: standardisation, interoperability and security. Secondly, I would like to touch upon the issue of innovation and how it will impact cards.

### **SEPA for cards: standardisation, interoperability and security**

In 2015 the Euro Retail Payments Board (ERPB) took stock of the market initiatives which are developing technical standards for payment cards in the EU, basing its conclusions on a detailed report by the Cards Stakeholders Group. As a result, the ERPB issued some recommendations on the implementation of the requirements developed in the SEPA Cards

Standardisation Volume (SCS Volume) in respect of different domains (terminal-to-acquirer, card-to-terminal, terminal security). Progress with these recommendations will be further monitored.

Interoperability concerns both the technical compatibility of cards and card terminals (one of the domains for which the ERPB has issued recommendations) and cards processing. Given the presence of multiple card schemes, multiple banks and multiple processors in Europe, the Eurosystem has repeatedly called for the development of a framework for the processing of card payments as well as an interoperability framework for SEPA-compliant card transaction processing. The technical interoperability of card processors and card schemes – based on European standards – is a key issue when it comes to realising the SEPA for cards. And technical interoperability is required by the EU's Regulation on interchange fees for card-based payment transactions (IFR), which will apply as of June 2016. Schemes and processors that want to survive in the SEPA for cards will have to become “pan-European” by moving towards interoperability based on European standards.

As regards the third critical area, security and the fight against fraud related to card payments in SEPA countries have been high on the agenda of the Eurosystem. The work of France's Observatoire de la sécurité des cartes de paiement (Observatory for Payment Card Security) has been a benchmark in that area. Furthermore, since 2012, the ECB has published the Eurosystem's findings on card fraud in an annual report.

What we have observed is that two-thirds of all fraud losses on cards issued within SEPA countries is related to CNP transactions. This fraud involves card payments for purchases made via the internet, the phone network or by email. Hence, the adoption of appropriate mitigation measures, such as the implementation of strong customer authentication, is indispensable to avoid a further rise in CNP fraud in the Single Euro Payments Area. The Guidelines on the security of internet payments of the European Banking Authority (EBA) published in December 2014 impose a minimum set of security requirements to be implemented by payment service providers. These guidelines are themselves based on the recommendations issued by the European Forum on the Security of Retail Payments (SecuRe Pay). Accordingly, I encourage all participants – not only payment service providers but also e-merchants – to keep up their efforts to improve the protection of internet payments and swiftly adopt strong authentication solutions. The drawing up of Level 2 regulatory technical standards and guidelines by the EBA, in close cooperation with the ECB, will provide the market with further guidance on security issues related to internet payments.

### **Impact of innovation on cards**

As I have said in the introduction, the emergence of innovative payment solutions will impact payment behaviour and the usage of cards and other traditional payment instruments in the years to come. Innovative card-based solutions for contactless proximity payments, e-commerce wallets or mobile person-to-person payments have the potential to further boost card usage by replacing cash payments, particularly vis-à-vis person-to-person payments and small purchases. At the same time, the card industry will be challenged by strong competition from innovative payment solutions based on payment instruments other than cards.

One of these challenges is instant payments. The ERPB has decided that the European Payments Council should develop an instant payment scheme for euro payments that is based on the SEPA credit transfer.

With regard to e-commerce, another challenge arises from the emergence of new payment service providers. Payment initiation services and online payment integrators are expected to enter the payments chain with their service offerings.

Then there is the challenge of distributed ledger technologies. These technologies, of which Blockchain is probably the best-known example, can potentially have a profound impact on the

whole financial “ecosystem”. Their adoption has the potential to disrupt both the use of “traditional” payment instruments and services and the payments processing industry.

The Eurosystem welcomes more choice for consumers and businesses, provided that the payment solutions offered in the market are secure and efficient and that both new and established providers play by the same rules. The revised Directive on Payment Services (PSD2) and the IFR have laid down the rules of the game and provide the required clarity. The EBA is now developing regulatory technical standards on separation of payment card schemes and processing entities (under the IFR) and also regulatory technical standards on strong customer authentication and secure communication (under the PSD2). I am sure that we will learn more about this during the course of this conference.

## **Conclusion**

Please allow me to conclude. I am convinced that cards are here to stay. Moreover, there is still a huge growth potential for card transactions in the EU. To unleash this growth potential, the SEPA for cards has to be realised. A harmonised, competitive and innovative European card payments area must be achieved by means of standardisation, interoperability and appropriate security measures. Card schemes and card processors that want to stay in the market have to become pan-European.

At the same time, innovative payment solutions will pose a challenge to the cards industry. It will face competition from instant payments based on the SEPA credit transfer, from payment initiation services in the area of e-commerce and from the adoption of distributed ledger technologies. This competition is welcome, provided the solutions offered in the market are secure and efficient and service providers play by the same rules. I am confident that the cards industry will find the right responses to these challenges – and to the benefit of users.