

Yves Mersch: "Rencontres du Club SEPA"

Speech by Mr Yves Mersch, Member of the Executive Board of the European Central Bank, at the "Rencontres du Club SEPA", Paris, 15 February 2018.

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With the launch of instant payments in euro in November 2017, the European retail payments market entered a new era. We are moving from a world where it is considered normal to wait a day or more for a payment to arrive to a world where payments are delivered in real time. This is overdue as I consider it anachronistic that services in an e-commerce transaction are delivered in real time and even goods sometimes only take a few hours – while the settlement of payments to release such goods and services would take a full business day. Now, payments will be delivered as fast as emails, instant messages and streamed content. I believe that – as was the case in these other industries – end-users, at least the younger and technology-proficient generation, will soon start to expect instant payments. Instant has the potential to become the new normal, and we will wonder how we were ever satisfied with payments arriving only on the next business day.

In order to support these demands and enhance customer experience, it is not sufficient to have the infrastructures in place to process payments instantly; payment solutions that are tailored to the specific needs of consumers and businesses are also required. In order to foster a dialogue on such needs, the ECB hosted an event last week at which providers demonstrated the apps they have created to support instant payments and exchanged views about the extent to which they would meet customer needs.

This event reinforced my firm belief that instant payments will be the basis for innovative payment solutions, but at the same time, it is only in combination with these solutions that instant payments will live up to their potential to become the new normal. This is why today I call on the industry to take the next step and develop end-user solutions that will allow consumers and businesses to enjoy the benefits of instant electronic payments in any payment situation, in addition to cash, which is still popular.

Instant payments – a tool for innovation in payments

Until now, the focus has mainly been on the three basic layers of the instant payments pyramid: the scheme, clearing and settlement layers. Great progress has been made in all three of these:

- ♦ At the request of the Euro Retail Payments Board (ERPB), the European Payments Council launched the SEPA Instant Credit Transfer (SCT Inst) scheme in November 2017, which over 1,000 payment service providers have already joined, with many more set to follow.
- ♦ Several automated clearing houses in Europe have started clearing SCT Inst transactions, supported by an enhanced settlement module provided by the Eurosystem.
- ♦ The TARGET instant payment settlement (TIPS) service is scheduled to go live in November 2018, ensuring the pan-European reach of instant payments – which has been one of the main objectives of the ERPB in that context.

These layers form the basis on which new, user-friendly services could be built. However, for instant payments to reach their full potential, a fourth layer is needed: the end-user solution layer. Without efficient, user-friendly end-user solutions, instant payments only make ordinary credit transfers faster – but instant payments can be much more than that: they can be a basis for innovation.

We have recognised the importance of end-user solutions from the beginning. That is why person-to-person (P2P) mobile payments have been a priority for the Eurosystem and the

ERPB. A service that will allow people all around Europe to make mobile payments to others, using their mobile phone number as an identifier, is expected to be available by October this year. When people can easily send and receive payments instantly via their mobile phone, the advantages of instant payments will become evident. This makes P2P payments an important first use case – but it should not remain the only one.

If you can instantly send money to a friend, then why not also to a business? Why should merchants have to wait days for funds to arrive, when the infrastructure to process payments instantly is available?

Point of sale

Instant point-of-sale payments would provide merchants with immediate and final payment – not a claim against the customer or a guarantee from a credit card company, but funds credited to the merchant's account with finality, like cash. This will improve merchants' cash flow and allow them to use the received funds immediately, for example to pay their suppliers. It is essential that the "instant at the point of sale" solutions that need to be developed are pan-European in nature, convenient for consumers and technically not too complex for merchants. I call on the payments industry to start working in this direction.

E-commerce

In e-commerce, too, instant payments can be an enabler for innovation. Building on what I mentioned earlier, customers must be able to easily initiate an instant payment from an online shopping environment and the merchant must instantly receive confirmation that the payment has been executed. The revised Payment Services Directive (PSD2) provides a stable legislative framework for such services and aims to foster innovation and competition in this field. The ERPB, taking the revised PSD2 and the close-to-final regulatory technical standards as a basis, has supported the industry in its endeavours to reach agreement on the necessary technical, operational and business elements to ensure the pan-European provision of innovative and competitive payment initiation services. This work is well under way and will be concluded by June this year. In parallel, the European Commission has encouraged a group of market actors to evaluate Application Programming Interface (API) technical specifications to ensure that they will meet market needs and will be fit for purpose when accessing customer accounts to initiate payments.

Security

The PSD2 provides many opportunities for innovative services, including, but not limited to, e-commerce payment solutions. Such solutions require standardised access to accounts, but also security throughout the payment chain. The PSD2 regulatory technical standards on strong customer authentication and common and secure communication strike a good balance between the needs of consumers, third-party providers and banks. They will probably not be applicable until September 2019 at the earliest. Since the main provisions of the PSD2 have been in effect since last month, I call on payment service providers to fulfil the requirements of the regulatory technical standards, even if they are not yet legally required to do so, during the transition period until these standards enter into force. It is in their own interests to do so, as this will guarantee the high security levels that are necessary to retain public trust in the payment system and payment services.

Instant payments versus virtual currencies

Smart, pan-European instant payment solutions meet the needs of end-users in the digital age, being fast and easy to use as well as safe and reliable. The SCT Inst scheme and the underlying market infrastructure are subject to Eurosystem oversight, and settlement takes place in central bank money. By contrast, so-called virtual currency schemes such as bitcoin, which have been

touted by some as the payment method of the future, cannot achieve that. First, bitcoin is not a currency but simply a speculative digital asset. It tends to be processed inefficiently and – by comparison with instant payments – 30 times more slowly, and is about 10,000 times more expensive. The inefficient processing makes transactions costly not just from a financial perspective, but also in terms of the environmental impact. Bitcoin in particular has a large carbon footprint due to the electricity consumption required for its creation and transfer. In addition, because virtual currencies do not have a trusted issuer behind them, they may become worthless at any time. It is not surprising, then, that virtual currencies are not widely accepted as a means of payment.

Conclusion

The future of payments is instant and most countries in the euro area are moving with the times. This is a natural development, following the rise of real-time services in other industries. The industry (with the support of the Eurosystem) has stepped up to the challenge and developed a scheme and an infrastructure that enable such services to become the new normal for euro payments. Now it is time to go one step further and provide efficient and innovative end-user solutions that allow consumers and businesses across Europe to make instant payments in any payment situation, especially at the point of sale, where the majority of retail payments are made. I encourage new and existing service providers to take the opportunity to develop pan-European point-of-sale solutions based on instant payments. These solutions should be efficient, user-friendly and secure. As you are all aware, high security standards are essential to retain public trust. I therefore reiterate my call to payment service providers to adhere to the PSD2 regulatory technical standards on strong customer authentication and common and secure communication as soon as possible, even before they are legally required to do so. By providing services that are safe, as well as fast and convenient, the payments industry will succeed in meeting the needs of a digitalised society.