Yves Mersch: The future started yesterday

Keynote speech by Mr Yves Mersch, Member of the Executive Board of the European Central Bank, at the Bank of Latvia conference “Payments in the 22nd century: future starts today?”, Riga, 3 October 2018.

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Predicting what payments will look like in the 22nd century is perhaps better left to science fiction writers than to central bankers. Still, at least one thing I can be sure of is that payments will be instant or cash-like.

And we don’t need to wait for the 22nd century to see this happen. Non-cash instant payments are a reality today in several places around the world. This includes Europe: last year already saw the launch of the SEPA Instant Credit Transfer (SCT Inst) scheme, developed by the European Payments Council at the request of the Euro Retail Payments Board. Banks from the Baltic countries were among the first to embrace instant payments, with a number of them joining the scheme from day one.

However, we are now at a critical stage for implementing instant payments. The number of banks offering instant payment services to their clients is steadily increasing, as is the use of such services by European people and businesses. In November we will launch TARGET instant payment settlement (TIPS): the Eurosystem service for instant payment settlement across Europe in central bank money. With this service, the Eurosystem is addressing the evolving needs of market participants and supporting market integration by facilitating pan-European reach at a time when the issuance of its new series of safe and widely-trusted banknotes is nearing completion.

An opportunity for the European payments industry

The move towards instant payments is not just good news for end users; it is also good news for the European payments industry. Cards are now the most popular and fastest-growing non-cash payment instrument in Europe, and many of the most prominent innovations in payments are card-based. Think of contactless payments and mobile wallets, as well as many online payment solutions.

This area is dominated by non-European players, with international card schemes taking the lead. European players are lagging behind, not least because of the lack of a pan-European card scheme or even interoperable card networks. In this context, we should strive for a truly pan-European instant solution rather than repeat past shortcomings.

Thanks to instant payments, European market players can now become leaders in innovation, based on European standards. The SCT Inst scheme and the infrastructures developed to process instant payments form the ideal basis for innovative payment solutions that meet the needs of today’s and tomorrow’s end users.

Let’s be clear: this is more than just a need for speed. European people and businesses are looking for payment solutions that fit seamlessly into their daily lives and business processes, from person-to-person payments to online marketplaces, and from micropayments to industry 4.0.

Each of these payment solutions could be enhanced by an instant payment feature, but they also require additional services to create a smooth and secure payment experience. Payment solutions can be integrated into or linked to mobile apps for ordering goods and services, thereby providing vendors with real-time confirmation of incoming payments. And instant payments can be integrated into business software and will undoubtedly pave the way for many other additional services. This is where market players can provide added value and create new business opportunities.

Time to take action

Market players need to take action. Payment service providers around Europe need to start offering their customers instant payment services. And they need to do so quickly.

Experience from other markets, from photography to music to bookshops, shows that when disruption hits, established players can quickly lose their seemingly comfortable position and find themselves struggling to remain relevant.

Thanks to instant payments, the European payments industry can create a pan-European platform for innovation. But only if everyone in Europe can pay each other instantly and the service is not restricted to the customers of certain banks or residents of particular countries. Moreover, payment service providers should not erect any barriers to the uptake of instant payments, for example by only offering them through a limited number of channels or by charging prohibitively high fees. Such strategies will only drive end users to other players. No one owns the customer. Web and technology giants are already knocking at the door, eager to leverage their existing user base to quickly gain market share in payment services.

To achieve economies of scale and benefit from the integrated European payments market, providers of instant payment services should also ensure that their services are truly pan-European. Their customers should be able to send and receive payments across Europe, in line with the principles of the Single Euro Payments Area.

Ensuring this reachability is the responsibility of each individual payment service provider, but the Eurosystem is also doing its part to facilitate pan-European reach. Our new TIPS service is in an optimal position to do so: it has been designed as an extension of TARGET2 with its extensive network of over 1,700 participants and more than 51,000 addressable Bank Identifier Codes. Its pricing policy also helps it to achieve a broad reach. There will be no charge for opening and maintaining an account or for receiving payments and reporting. For the first two years of operation, the price per initiated transaction is set at €0.002, with no charges for the first ten million payments settled on each TIPS account by the end of 2019. In addition, TIPS will offer a flexible participation structure, allowing market participants to participate in TIPS directly, to connect as a reachable party or to use an instructing party to send instructions on their behalf. With this flexible structure, we are not only providing a new standalone infrastructure but also allowing the market to leverage existing clearing arrangements – subject to market participants' choices – in order to maximise the integration benefits of the new service. This approach is consistent with that of the existing Eurosystem TARGET services as well as our new initiatives. To promote euro area-wide, smooth and efficient payment systems in line with our mandate, we might even have to reflect on whether broader access to central bank accounts for retail purposes may be needed.

A clear parallel can be drawn with our aim to foster a true domestic capital market in the euro area via the European Distribution of Debt Instruments (EDDI) initiative. The issuance, trading, clearing and settlement of a security in the EU should not be affected by the location of the issuers, investors or intermediaries. The idea of EDDI is to facilitate a centralised issuance and distribution service for European debt securities, exploring synergies with the other TARGET services and the Eurosystem collateral management system. The Governing Council recently agreed to investigate the next steps for the EDDI service based on the guiding principles of efficiency, safety, harmonisation and neutrality.

Avoid creating new fragmentation

This instant payments network should then be used as a basis for pan-European end-user solutions. There are almost limitless opportunities to design innovative services on top of the basic SCT Inst scheme. In fact, we can already see several initiatives flourishing around Europe: mobile payment solutions for person-to-person and point-of-sale payments, to name just one.

Unfortunately, many of these are limited to one country, or even just a few banks within a single country. Unless this changes, users of these services will not be able to benefit from the pan-European nature of SCT Inst. They will have to look for alternatives when they travel, order goods and services from other countries or do business across Europe, and they will not care whether these alternatives are based on European schemes or not.

It would be a great pity if fragmentation were to be re-introduced at the end-user level. Suppliers should strive for pan-European designs, using common standards and working together with stakeholders.

Take point-of-sale payments, which make up the largest segment of the retail payments market in terms of transaction volumes. Vendors of all types and sizes could benefit from increased cost efficiency and improved cash management if they could accept instant payments at the point-of-sale. Point-of-sale solutions for instant payments could also allow businesses that do not accept cards for cost or practical reasons to offer their customers the choice to pay electronically. Such solutions should not replicate the situation that exists for cards, with non-interoperable national solutions. They should be based on common standards so that consumers can make instant payments at points-of-sale anywhere in Europe.

Conclusions

The SCT Inst scheme and the new instant payments infrastructures have laid the foundation for a future-proof European payments landscape.

Now it is up to the market to build on that that foundation. This means offering instant payment services that meet clients' needs, at attractive prices. Charging prohibitive fees will not support the take-up of instant payments. On the contrary, it would only drive customers towards other players. Rather than being driven by the services offered by other players, why not drive developments yourselves and reap the respective benefits? Those market participants that take this opportunity to offer innovative payment services to their customers at pan-European level will be ready for the payments landscape of tomorrow and beyond; perhaps even into the 22nd century.