

# Yves Mersch: TIPS and the future of innovative retail payment solutions in Europe

Speech by Mr Yves Mersch, Member of the Executive Board of the European Central Bank, at the TIPS launch event, Frascati (Rome), 30 November 2018.

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## Introduction

Ladies and gentlemen,

Today we celebrate the launch of TARGET Instant Payment Settlement (TIPS), a new component of the Eurosystem's TARGET Services.

Since the launch of the euro in 1999, the Eurosystem has greatly contributed to reshaping the European market infrastructure.

The Eurosystem's first step was to integrate and consolidate large-value payments. The first-generation TARGET system, and its successor TARGET2, provided a single platform for real-time gross settlement for euro payment transactions related to the Eurosystem's monetary policy operations, as well as bank-to-bank and commercial transactions.

Second, TARGET2 Securities harmonised post-trading services for financial instruments, bringing an end to complex cross-border settlement procedures and the problems caused by different settlement practices across countries.

In launching TIPS, the Eurosystem is acknowledging the changing reality that digitalisation is erasing the borders between wholesale and retail. TIPS enables payment service providers to allow their customers to transfer funds across Europe in real time and around the clock, every day of the year.

Work on developing and implementing TIPS started in June 2017 and the project was completed on time, on schedule and on scope. We can be justly proud of launching TIPS today and have good reason to celebrate. Banca d'Italia has been a strong partner in euro area infrastructure platforms since the introduction of the euro, and continues to be committed to the ever-closer integration of euro area economy for the common good.

## The building blocks for retail payments innovation in Europe

With TIPS, we now have three strong building blocks in place for unleashing the potential for retail payments innovation in Europe.

First, we have standardisation and harmonisation of business rules. The SEPA instant credit transfer scheme provides the common basis for the roll-out of innovative end-user solutions for retail payments. One year after its launch, more than 2,000 payment service providers from 16 different countries have joined the scheme, proving their commitment by following the Euro Retail Payments Board guidance on instant payments. This number represents roughly half of the payment service providers and we expect that the other half will follow as soon as possible.

Second, we have a state-of-the-art market infrastructure. TIPS is a truly domestic market infrastructure for pan-European instant payments with settlement in central bank money. There are flexible options for interaction with TIPS, allowing different kinds of market actors to access the platform in different roles. Using TARGET2 as a basis, TIPS can provide wide reach and scale, tapping into an established network of over 1,700 participants and more than 51,000 addressable Business Identifier Codes (BICs).

Third, we have a sound legal basis. The revised Payment Services Directive (PSD2) provides the legal framework for retail payments innovation by setting rules for third-party payment service providers. PSD2 enhances consumer protection and increases security for payment services. But it is not yet fully implemented.

With these three strong building blocks in place, there is little excuse for not using this potential to provide pan-European services. Let me be clear: it is not sufficient for banks to simply adopt the scheme and connect to TIPS in order that their customers may receive instant payments.

And neither is it sufficient to only provide the core SEPA instant credit transfer as a faster alternative to the SEPA credit transfer. What is required is to tap into the potential of growing payment volumes and the opening-up of the payments market to new service providers under PSD2. We invite all payment service providers to offer solutions that meet customers' needs for immediate (or nearly immediate) payment services, e.g. for e-commerce or person-to-person mobile payments.

Our experience is that the foundations laid by European institutions are often exploited by multinationals from outside Europe. The market for online payments in Europe is not dominated by European payment service providers but by international providers such as PayPal, which use the pan-European SEPA credit transfer and SEPA direct debit schemes as a basis for their consumer-friendly services. Other big international players such as Google, Apple, Facebook and Amazon are also offering payment services with pan-European reach, some of which involve joint ventures with individual banks at national level. At the same time, Chinese payment service providers such as Alipay and Tenpay are advancing. What is preventing European payment service providers from catching up?

### **The future of retail payments services in Europe**

The way we pay and want to pay in Europe is changing. Many consumers are moving to e-commerce and ever more e-retail payments are made from mobile phones. Consumers expect pan-European services that are safe, efficient and easy to use.

PSD2 sought to facilitate innovative retail payments services by further levelling the playing field for new players. However, this objective seems to have met with resistance from banks, which are taking a defensive attitude regarding technical access for new and innovative third-party service providers. Such resistance limits the ability of European fintech companies to provide innovative, efficient and customer-friendly solutions. Moreover, we are often told that pressure on margins is increasing. Some European providers are following a self-defeating strategy by setting higher prices for euro area solutions than their non-European counterparts charge for non-euro area solutions. But as I have stated before, the current growth in payment volumes may offset some of the pressure. Furthermore, instant payment solutions are a viable alternative to cards in e-commerce.

We need to see a shift of mindset in Europe regarding the role of payments. We need to look at payments from a more strategic perspective rather than focusing purely on operations. There is no such thing as a free lunch. The overhaul of existing internal systems and procedures required to move retail payments from batch-processing into the real-time universe is an investment.

However, in evaluating the necessary expenditure for modernising payment service providers' internal payments infrastructure, we must consider that it will not only benefit payments but also all the products and services that banks can offer to their customers. In a world increasingly dominated by open banking, payments are an anchor for customer relationship management and a key driver for cross-selling.

To successfully compete with international providers of innovative retail payment solutions, European payment service providers urgently need to bring their internal systems up to par.

## Conclusions

With the launch of TIPS, the Eurosystem has laid the groundwork for innovative, customer-friendly retail payment solutions for the benefit of European citizens. European payment service providers must make use of the opportunities offered by Europe's state-of-the-art market infrastructure rather than leaving the field to international players. This has nothing to do with protectionism. On the contrary, as long as they fulfil the regulatory requirements, we remain open to global players. But we need to address the reasons for the scarcity of major European players in the payments market. If there is a lack of investment capacity for overhauling internal legacy systems that do not seamlessly function in a real-time payments era, we should not shy away from pooling resources and volumes and creating bigger players. Focusing on national markets alone would be a step backward. We have to think global and seek to develop global solutions that are based on European open governance and use European infrastructure.

Thank you.