

Sabine Lautenschläger: Transformation of the retail and wholesale payments landscape in Europe

Speech by Ms Sabine Lautenschläger, Member of the Executive Board of the European Central Bank, at the European Association of Co-operative Banks, Berlin, 14 June 2019.

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The European payments market has come a long way since 1992 when the Maastricht Treaty laid the foundation for the euro as a single currency.

The road may have occasionally been long and winding but the facts speak for themselves: today, the euro is the second most used currency in the world and the Single Euro Payments Area (SEPA) which extends beyond the EU affects the lives and businesses of over 500 million people, 20 million companies and 4,000 payment service providers. The European payments market generates more than 130 billion non-cash payments per year, representing approximately one-quarter of the global payments business.

For more than 20 years, Europe has strived to improve the efficiency and competitiveness of the payments market. Substantial achievements have been made over the years and what some people used to consider challenging, or even impossible, has now become part of our everyday lives.

The SEPA project is a perfect example. Having enjoyed the ease of SEPA payments since 2014, we can hardly remember a time when credit transfers and direct debits functioned smoothly within countries but not necessarily across borders.

Like many of Europe's other achievements, advances in retail payments are all too easily taken for granted. It took approximately 12 years to harmonise credit transfers and direct debits across Europe, but today's users can rely on a single account for their payments business within the SEPA area and freely choose payment service providers based on quality and costs rather than location. And competition between payment service providers now takes place on a level playing field.

So what has been the key driver of past success? Beyond doubt, it is the cooperation between payment stakeholders in Europe. Since the payments market is a network industry, cooperation and coordination among market players are of utmost importance.

We at the ECB are well aware of the importance of European-wide cooperation.

In 2013, we established the Euro Retail Payments Board (ERPB) with the objective of further deepening such cooperation. This high-level strategic body brings together the supply and demand sides of the European retail payments market. A great deal has been achieved under the umbrella of the ERPB thanks to the efforts of all involved and I am pleased to see that further work on developing innovative and competitive payment services is under way.

The ERPB's most important work at the moment relates to instant payments. I will later explain why I think that the ERPB's work on instant payments is so important for the future of an integrated European payments market.

The ERPB can be considered the cradle of euro instant payments. In response to its call for the development of a pan-European instant payment scheme, the market delivered: the European Payments Council (EPC) developed the Instant Credit Transfer (SCT Inst) scheme in November 2017.

For the first time in Europe, a significant payment scheme was established with full stakeholder

involvement, both on the supply and demand sides, and in a remarkably short amount of time. Some 51% of European payment service providers that offer credit transfer services are reachable for instant payments by now.

The Eurosystem also responded to the increasing need for instant payments by developing TARGET instant payment settlement (TIPS), which is based on the SCT Inst scheme.

Launched in November 2018, this pan-European market infrastructure allows payment service users to send and receive payments instantly and around the clock within Europe. Offering instant payment services at the European level ensures that any bank account holder in Europe can be reached. It minimises the potential risk of the payments market fragmenting. As settlement in TIPS takes place in central bank money, it also eliminates credit risk for the participating banks.

Instant payments – a challenge and an opportunity for European payment stakeholders

So, why am I focusing so much on instant payments today? Well, I am convinced that instant payments are the new challenge currently facing payment stakeholders in Europe. And I firmly believe that only a pan-European solution for instant payments will turn this challenge into an opportunity for Europe.

I would therefore encourage all payment service providers that have not yet implemented SCT Inst, to do so as soon as possible.

In fact, instant payments may well be the game changer in the payments market, paving the way for innovative European payment solutions.

We are embarking on a new era in which the pace of technological change is challenging policymakers and central banks as well as incumbent market players. Evolutions, and sometimes even revolutions, in both technology and user needs are facilitating the emergence of new players in the payments ecosystem. This brings competition and boosts the range of choice for consumers.

Changes in the payments industry have always been driven by customer demand for convenience, speed and efficiency. New technical solutions have even further nurtured these developments.

Given the prevalence of smartphones and other mobile devices, today's customers are used to doing things on the spot. They want to make payments instantly, anytime, and anywhere, and expect them to be as readily available as instant messages, instant videos or Instagram.

The EPC's creation of the SCT Inst scheme came in response to these users' expectations. And instant clearing and settlement infrastructures have already been established, most notably TIPS.

But, in the long run, simply being reachable for incoming payments initiated by other banks' customers will not be enough. I am convinced that banks need to offer even more innovative and efficient solutions for their customers and I would advise them to embrace the instant payments space as an opportunity to remain relevant players in the payments business.

One area in which solutions have already emerged is payments between individuals, or so-called person-to-person payments.

But we also need solutions encompassing payments at merchants, at the point-of-interaction (POI), both physical and virtual. In fact, some end-user solutions for instant payments at the point of interaction are already emerging across Europe. But they tend to be limited geographically, meaning that each solution is only usable in one or a few (neighbouring) countries. This certainly

does not point to an integrated European payments market.

In addition, in many instances, such regional solutions are not interoperable with each other. For example, although many solutions use QR codes that consumers can scan with their mobile devices, they have not implemented a common standard for these codes.

So, there is a clear need for standardisation to enable European consumers to pay EU-wide using interoperable solutions. In this context, the ERPB set up a working group to analyse in detail the barriers to the pan-European reach of point-of-interaction solutions. It will report back on the outcome of this work by November 2019. I hope to obtain useful input from this work. Because if we do not achieve interoperability among national and regional solutions, as difficult as it may be, we run a serious risk of fragmentation of the European market.

Let me explain why I am concerned about the risk of increasing fragmentation through national point-of-interaction instant payment solutions.

At the moment, users who want to pay effortlessly at European level have to find alternatives to this fragmented landscape. Appropriate solutions may not be based on the European schemes, but they may be provided by large platforms which can offer the desired network effects thanks to their large global customer base.

But there are currently only a limited number of providers allowing for payments at pan-European level. This leads me to the following question: how should we consider the dependency on only a handful of big payment providers from a competition and diversity point of view? In the long run, a lack of competition may reduce the quality of services to the detriment of their users. Isn't there a need for truly pan-European instant payment solutions, which would offer support to many payment providers?

The SCT Inst scheme – a pan-European scheme for instant payments – and the pan-European market infrastructure for processing such payments, like TIPS, represent a unique opportunity for developing a truly pan-European solution for instant payments at the point-of-interaction.

Such solution could be designed to be as convenient as existing solutions at point-of-interaction that are based on other payment instruments. The inherent benefits of instant payments would thus materialise for all stakeholders.

Consumers would be able to use them anywhere in Europe and eventually also at global level. Users would also have a consistent payment experience within and between countries.

By accepting instant payments at the point-of-interaction, merchants across Europe, too, would benefit from more efficient liquidity management and higher cost efficiencies. Those merchants or other businesses that today do not accept cards due to their associated costs could offer users the opportunity to pay electronically.

And finally banks could also benefit from higher cost efficiencies and generate new revenue streams. They would also be in a position to design such a solution under their own governance according to the needs of their customers.

To make this vision a reality, further actions from market participants are needed. These actions do not need to be revolutionary. As I said before, Europe already has with SCT Inst scheme and TIPS some of the necessary building blocks in place to develop such a solution.

In order to realise the potential of such a European solution, cooperation is once again essential. Banks, merchants and other relevant stakeholders across Europe should work together to find the best way forward.

Increasing efficiency in wholesale payments

Let me now briefly turn to the area of wholesale payments and our plans to increase efficiency in this segment.

Since well before TIPS, the Eurosystem has been offering efficient and safe market infrastructures that form the backbone of the financial sector. I am referring here in particular to the two TARGET services: TARGET2-Securities (T2S) in the field of securities settlement and TARGET2 in the field of wholesale or large-value payments.

The current economic and technological developments call for even more effective and efficient liquidity management services. In order to meet this demand, the Eurosystem will extend and enhance its provision of market infrastructure services for high-value payments. It will do so by integrating TARGET2 with TARGET2-Securities and TIPS.

This consolidation will also allow TARGET2 to benefit from the state-of-the-art approaches and technologies offered by T2S. This will be achieved through technical integration in the domains of connectivity, data management and other key enabling components, such as billing.

There are further advantages: we not only expect a decrease in the running costs of the TARGET services. It will also act as a catalyst for smoother and stronger operability. And the harmonisation of functionalities across all TARGET services should lead to major improvements in their usability for participants and service operators alike.

The T2-T2S consolidation project is scheduled to go live in November 2021.

Conclusion

Let me conclude.

Technological innovation and evolving user needs are reshaping the market infrastructure and payments landscape on a global scale. Cooperation between European market players is essential to reap the opportunities and address the challenges deriving from such change. Cooperation is also key to the continuous provision of efficient and safe payments services in Europe. And cooperation is indispensable for Europe to remain competitive in the global payments market. The ECB strongly supports such cooperative spirit, as shown by the work of the ERPB.

With instant payments, European stakeholders have developed a competitive and new payment instrument. Why not take advantage of this potential? Current achievements, such as SCT Inst and TIPS, should facilitate future work towards increasing the efficiency of the European payments market.

Pan-European solutions based on instant payments would be a chance for Europe to strengthen its role in payment innovation to the benefit of all EU citizens and businesses. Let us work together on this future-oriented approach and help Europe going forward.