



EUROPEAN CENTRAL BANK

# **What does the future hold for retail payments harmonisation in Europe**

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# Outline

- **Current retail payments landscape**
- **Importance of an integrated European retail payments market**
- **The SEPA project**
- **The legal context**
- **Innovation**
- **Possible impact on non-SEPA countries**

# What does the future hold for retail payments harmonisation in Europe

## Current retail payments landscape

# Current retail payments landscape



Variety of retail payment markets that meet **national particularities**:

→ **diversity** of

- Processing models
- Payment instruments
- Standards

→ **high discrepancy**

between cross-border and domestic cashless payments in:

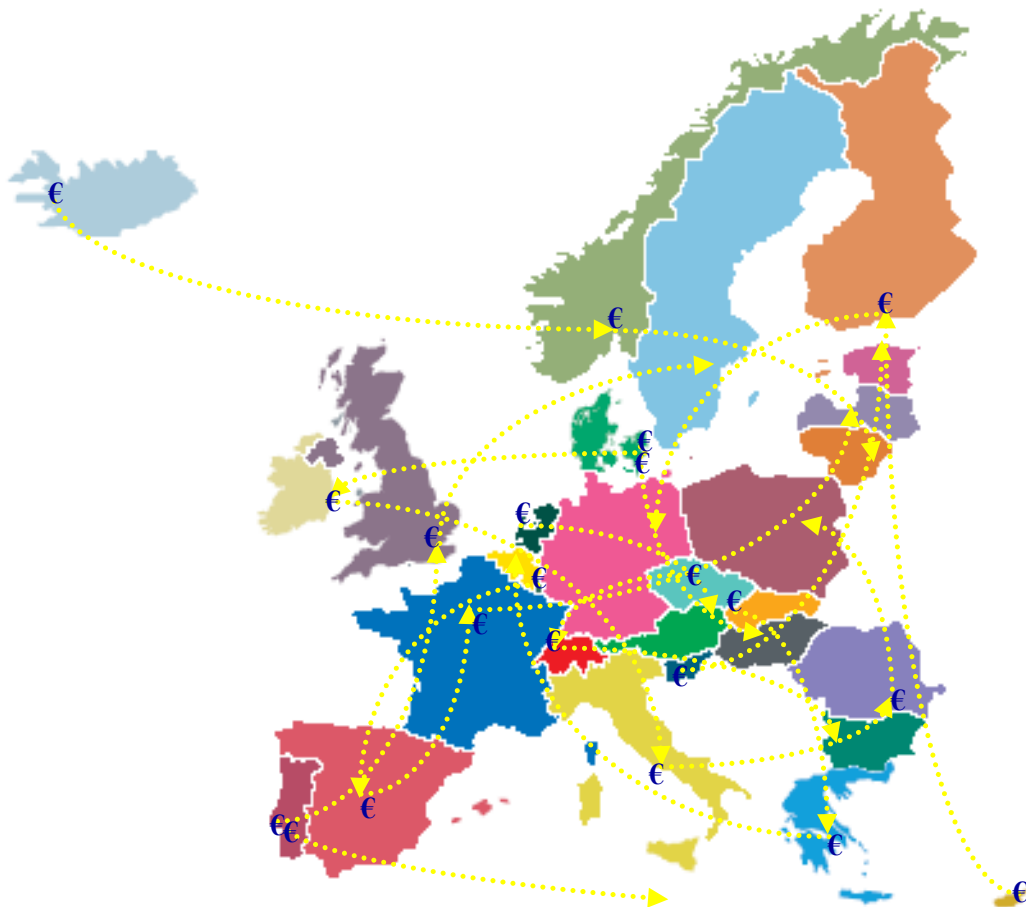
- Quality
- Service
- Cost



# What does the future hold for retail payments harmonisation in Europe

**Importance of an integrated European retail payments market**

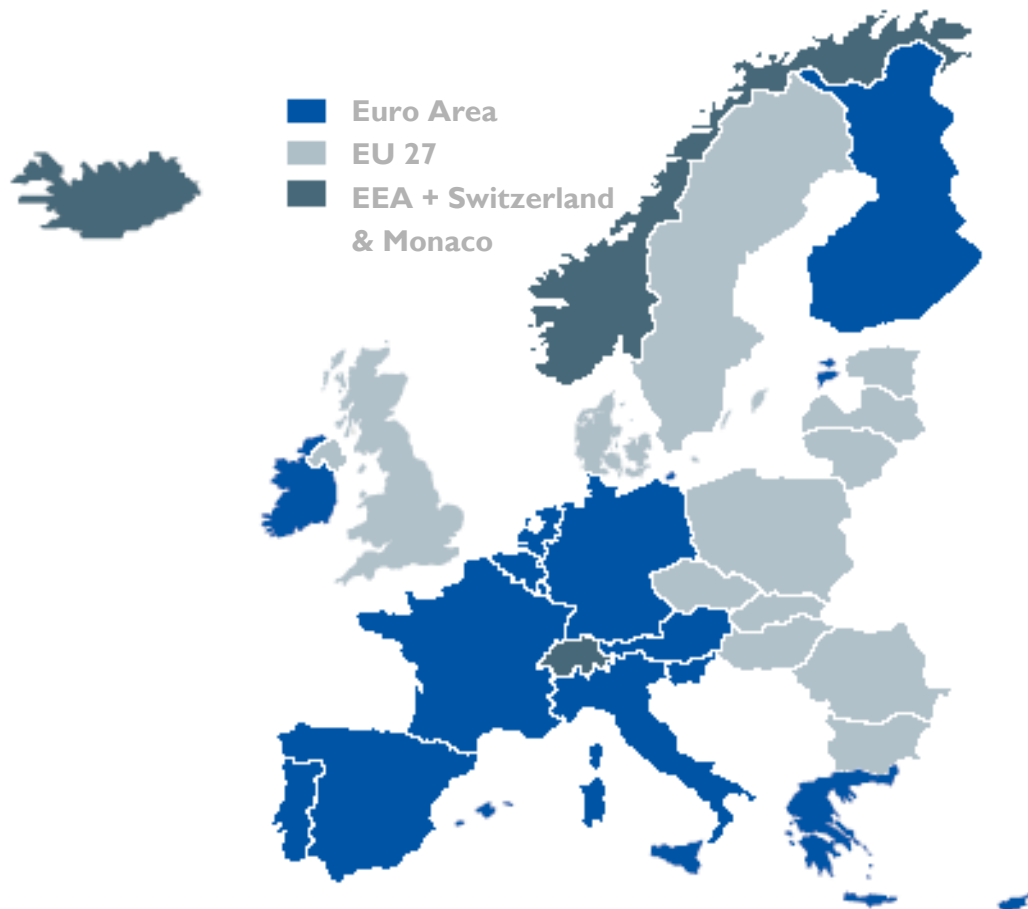
# Importance of an integrated European retail payments market



A fragmented European retail payments market:

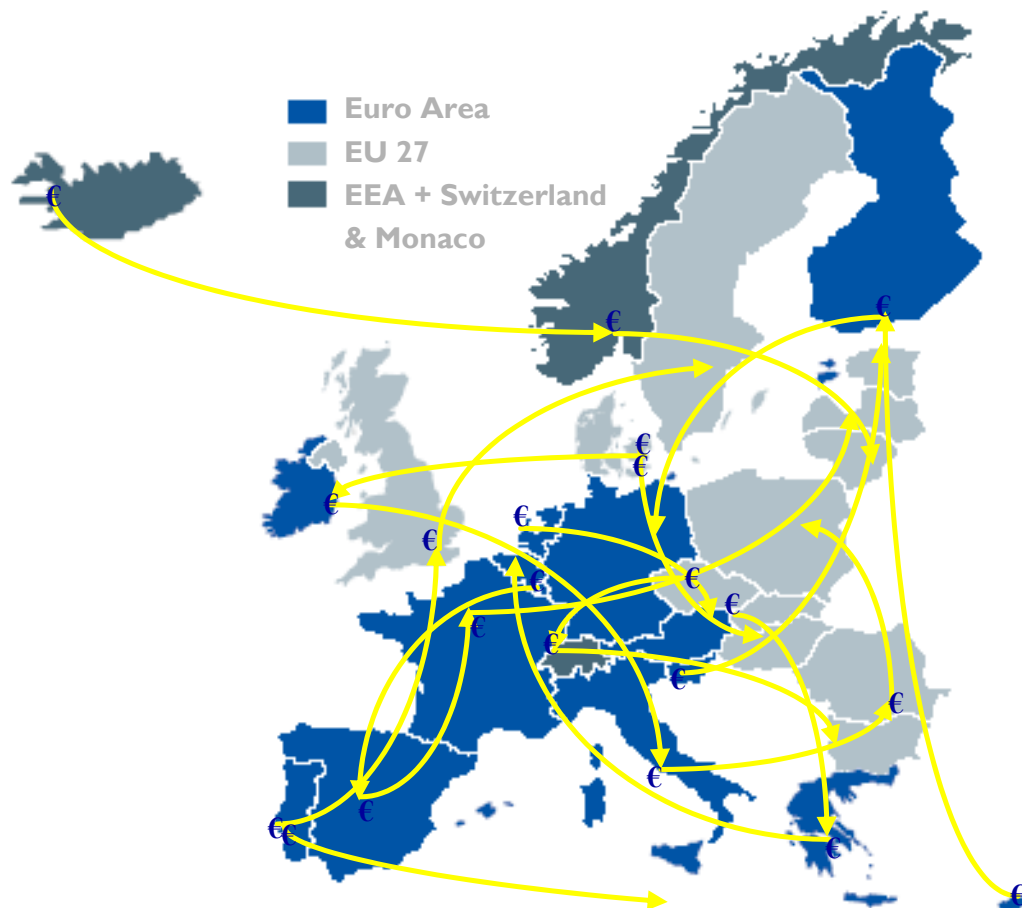
- Creates **inefficiencies** in the economy.
- Makes cross-border **trading difficult**.
- **Restrains** the **development** of innovative payment solutions.

# Importance of an integrated European retail payments market



**SEPA** will address these issues by **overcoming the fragmentation** of the market.

# Importance of an integrated European retail payments market



All payments in € will be **domestic** → an integrated European retail payment market will bring:

- ✓ Efficiency
- ✓ Innovation
- ✓ Better services and/or price



# What does the future hold for retail payments harmonisation in Europe

## The SEPA project

# The SEPA project

## Eurosystem's vision on SEPA

Citizens, merchants and corporates will be able to make euro payments throughout the SEPA area:

- ✓ from a **single bank account**,
- ✓ using a single **set of payment instruments**,
- ✓ as **easily and safely**

as in the national context today.

SEPA represents one **step forward**  
in European integration.

# The SEPA project

- SEPA was taken up by European banks as a self-regulatory, **market-driven project** → EPC.

What is then the role of the **Eurosystem**?

Acting as a **catalyst** for change

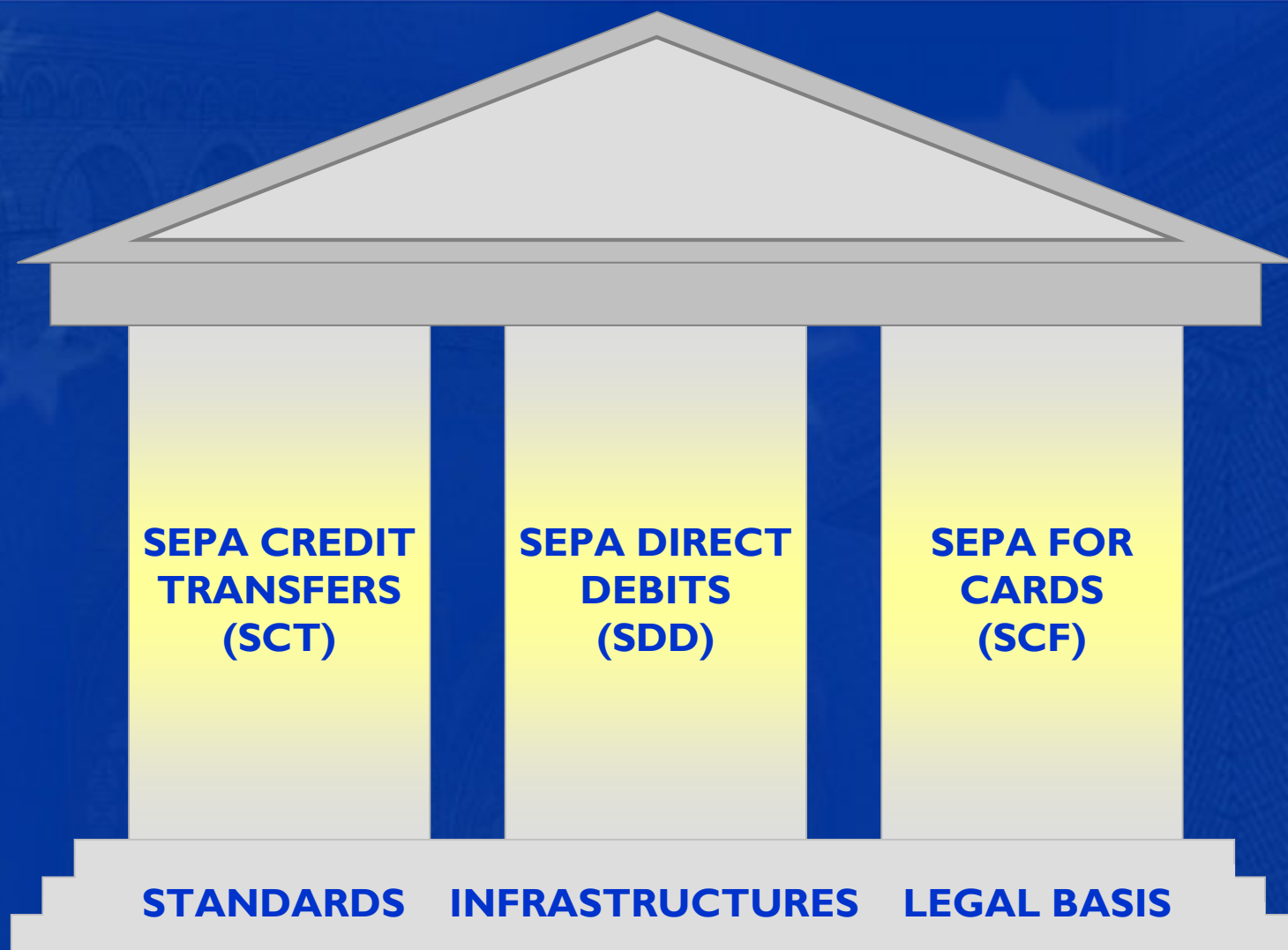


Providing guidance  
to the market

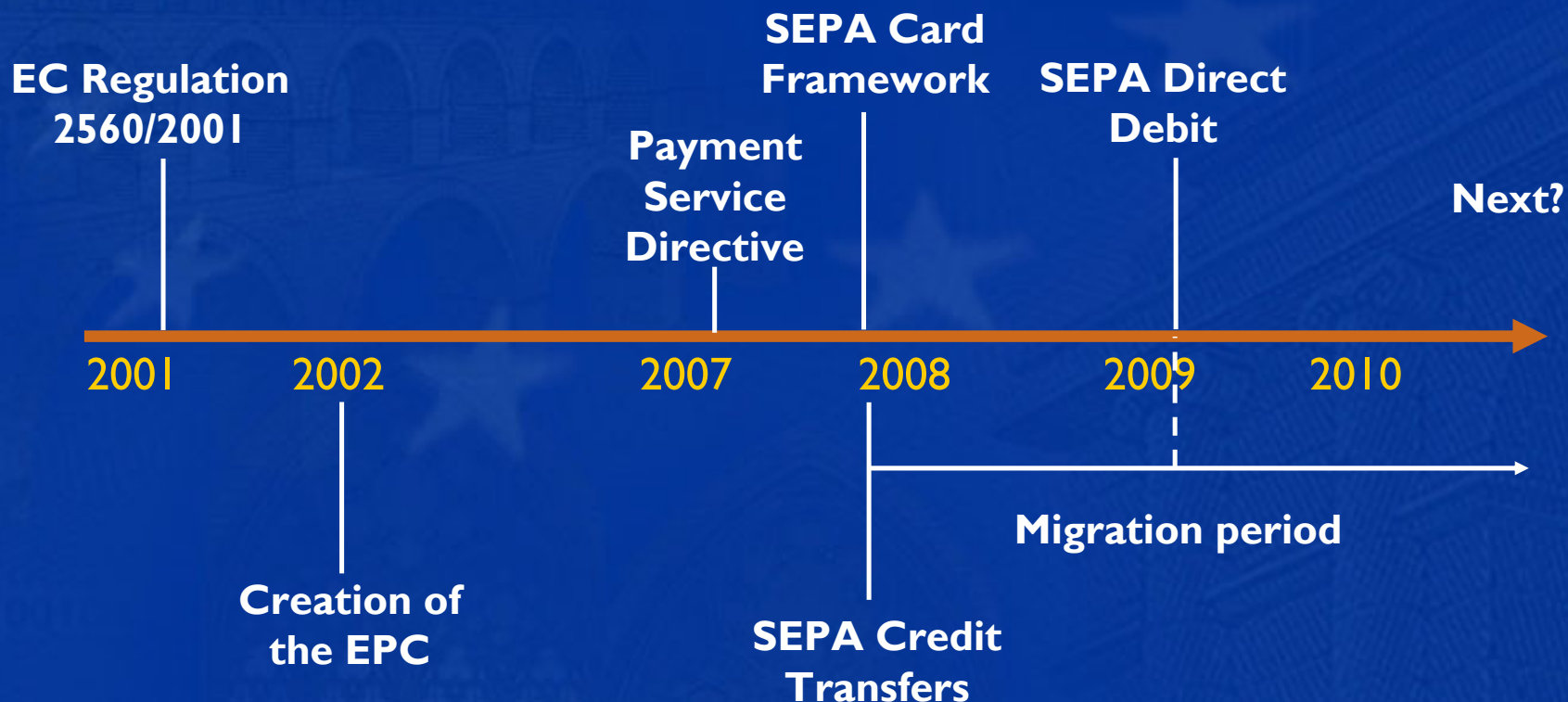


Ensuring that SEPA  
is in the interest of  
all stakeholders

# The SEPA project



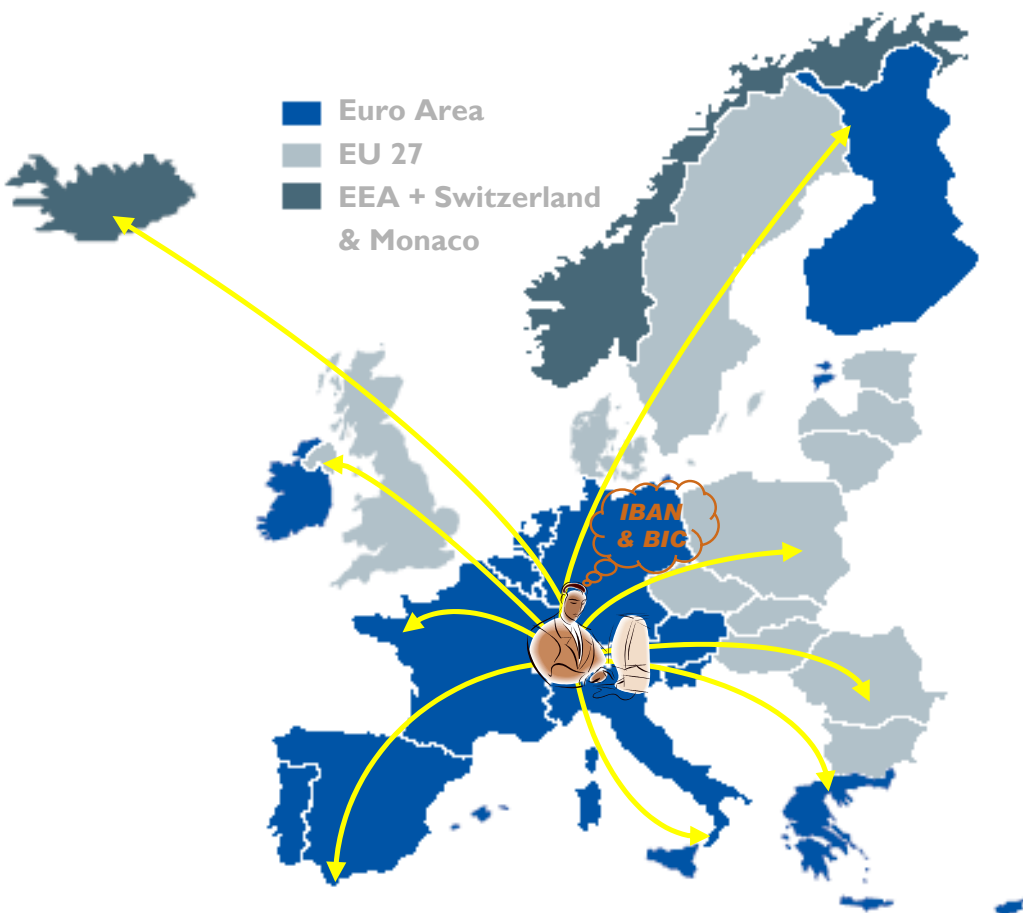
# The SEPA project





# The SEPA project

## SEPA Credit Transfer



✓ **SEPA-wide reachability.**

✓ **IBAN and BIC must be used.**

✓ **No limit on the value of the payment.**

✓ **Full amount credited to beneficiary account.**

✓ **Maximum settlement time D+3 (D+2 from Nov 2009 and D+1 from 2012).**

✓ **Clear rules for rejection and returned payments.**

**DETAILS IN THE RULEBOOK**

# The SEPA project

## SEPA Direct Debit: obstacles and solutions

- |   |  |
|---|--|
| • Lack of common legal framework.                                     | ☺ PSD will be transposed by November 2009.                               |
| • Migration of the existing mandates.                                 | ☹ Could it be solved with PSD transposition?                             |
| • Multilateral balancing fee (MBP).                                   | ☺ Joint statement of EU Commission and ECB.                              |
| • Adoption by communities where mandates are handled by debtor banks. | ☹ They will have a one-year time window to adhere (until November 2010). |
| • Lack of e-mandates.   | ☺ E-mandates under development.  |

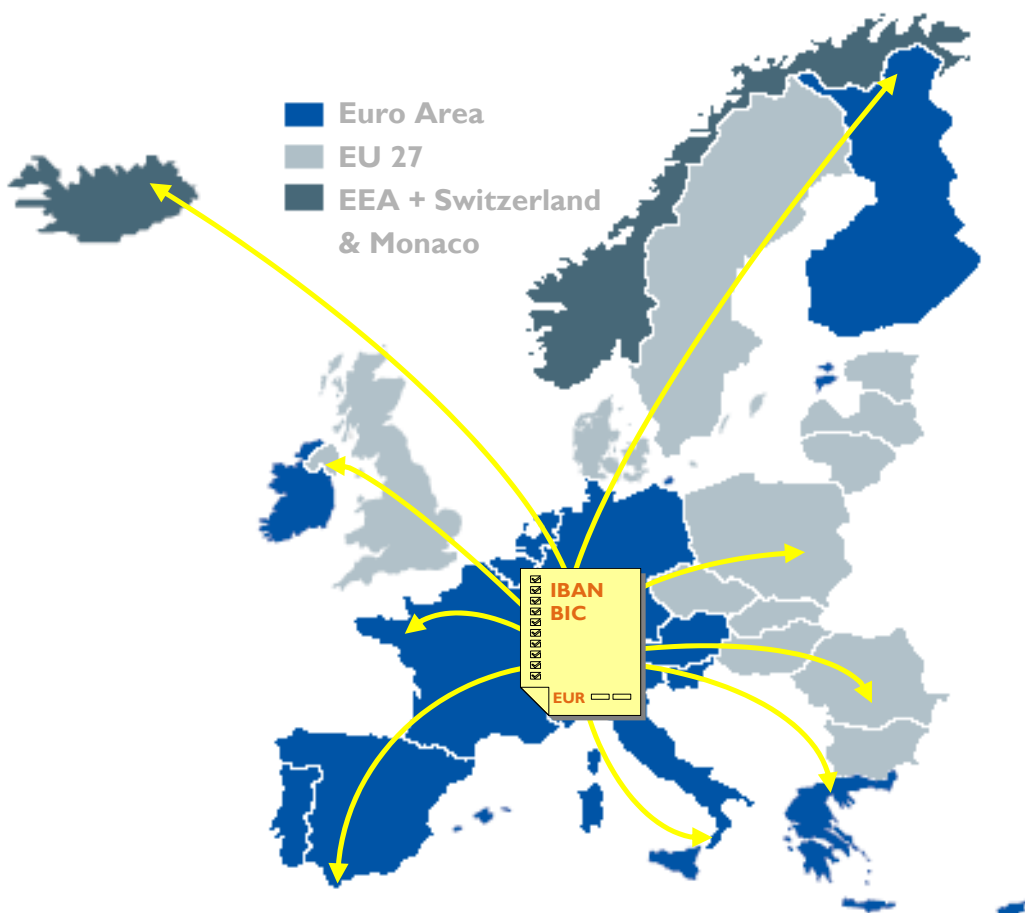
# **The SEPA project**

**SDD scheduled for launch on  
1 November 2009**

**For the first time, the direct debit  
will cross national borders.**

# The SEPA project

## SEPA Direct Debit

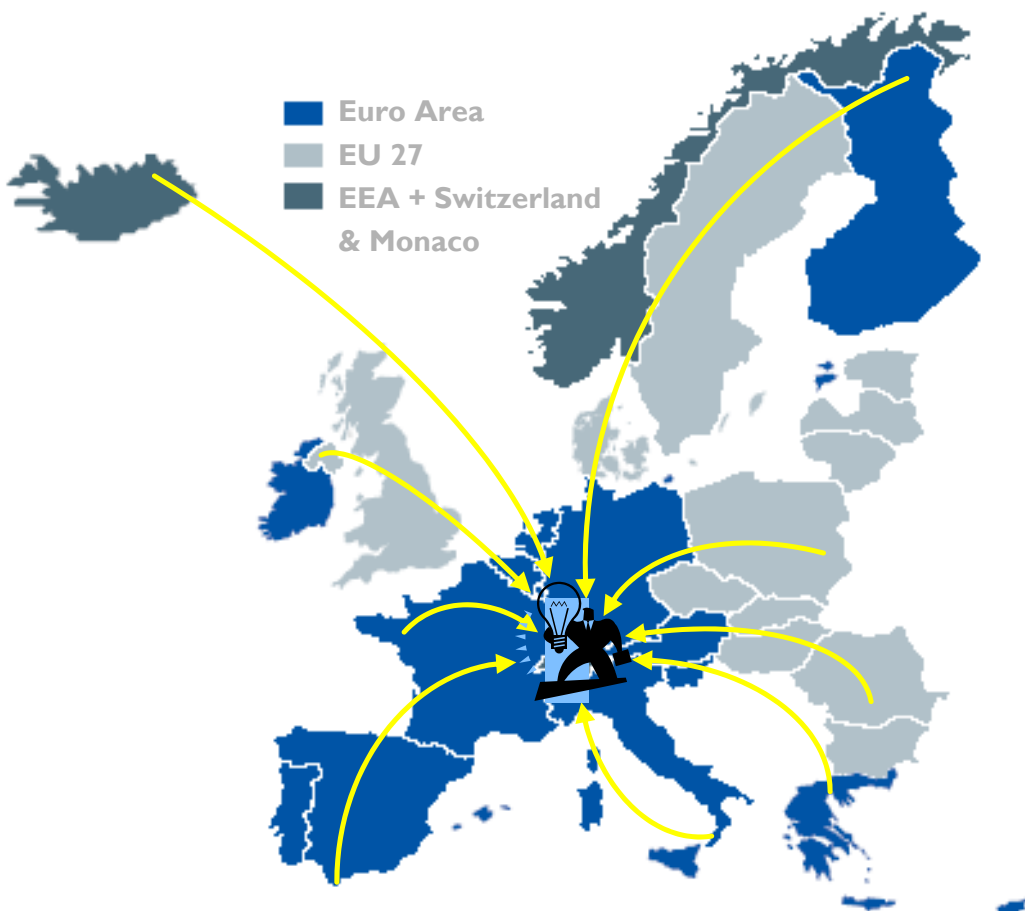


- ✓ SEPA-wide reachability.
- ✓ IBAN and BIC must be used.
- ✓ D-5 for first payment, D-2 for recurrent payments.
- ✓ One-off & recurrent payments.
- ✓ The debtor gives the mandate to the creditor.
- ✓ Clear rules for rejection and returned payments.
- ✓ Banks could offer Additional Optional Services.

**DETAILS IN THE RULEBOOK**

# The SEPA project

## SEPA Direct Debit



- ✓ **SEPA-wide reachability.**
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**DETAILS IN THE RULEBOOK**



# The SEPA project

## SEPA Cards Framework

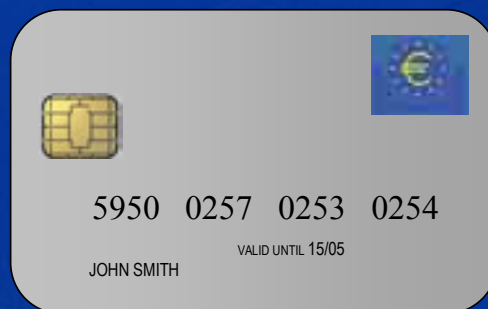
- Set of high-level principles that existing/new schemes have to adjust to → **“adaptation”** strategy.
  - Separation of scheme and processing.
  - Cards with European wide reach (if brand accepted by merchant) will be available to users.
  - Cards with national reach only will no longer be issued and will be phased out (end of 2010).
- **More competition:**
  - Merchants can choose any bank in the euro area as acquirer.
  - Card issuers / processors / infrastructures can offer their services throughout the euro area.

# The SEPA project

**Way forward** → a **European alternative** to international card schemes is needed in order to:

- Achieve an efficient, competitive and integrated European card payments market.
- Overcome costly fragmentation.
- Have Europe represented in the card domain.

**Monnet**



**The ECB supports equally all initiatives, and encourages the existence of different business models.**

# The SEPA project

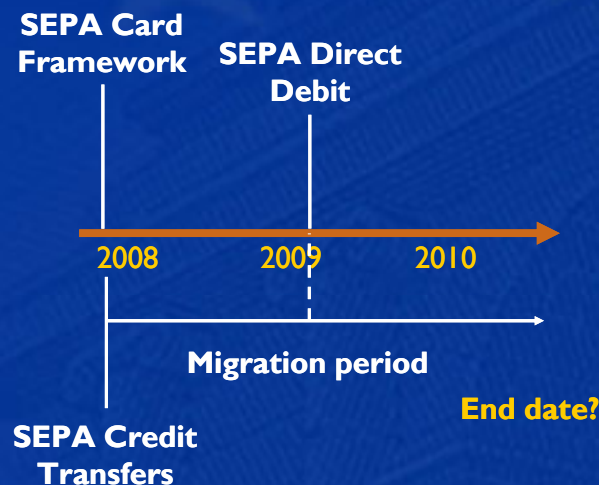
## Standardisation

- **SEPA Credit Transfer and SEPA Direct Debit**
  - European harmonisation/standardisation at payment scheme level.
  - Make use of a sub-set of the **ISO 20022** messages.
- **SEPA for Cards**
  - **EMV** is the chosen technology by the EPC.
  - **EPC 'Volume'** of requirements for card payments.
  - Market initiatives working on implementations and on a **SEPA Certification Framework** for cards and terminals.
  - Open issues: governance, **ISO 20022** for cards.

# The SEPA project

## Arguments for a SEPA Migration End Date (SMED)

- **Slow take off** of SCT (4.4% in July)  
→ completion of migration seems far away (2042 at current pace).
- Complete migration needed to fully **reap the benefits** of SEPA.
- **Parallel processing** is too costly for the economy as a whole.
- Having an end-date allowed for a **successful introduction of the euro** (changeover completed in 2 months).
- **Stakeholders** are demanding an end-date (users, infrastructures, banking community...).



# The SEPA project

## SMED: pending issues

- **What?**
  - One SMED for SDD and one for SCT?
  - The same SMED for both?
- **Who?**
  - Self-regulation?
  - Regulation by EU (customer-to-bank domain)?
  - Regulation by ECB (interbank domain)?
- **Where?**
  - Country by country?
  - SEPA-wide?
- **When?**



# The SEPA project

## SEPA Governance

- Need of a **European forum** to boost the development of SEPA:
  - National fora deal with the national market.
  - The establishment of a European market calls for governance at European level → built upon the national experience.
- Its main task would be giving **support** to the **SEPA** process:
  - Improving the involvement of stakeholders.
  - Increasing transparency.
  - Ensuring the implementation of SEPA.

# What does the future hold for retail payments harmonisation in Europe

## The legal context

# The legal context

## Regulation 2560/2001 on cross-border payments

- It aims at **eliminating the price differences** between national and cross-border euro payments → prices have to be the same for national and cross-border payments of the same type.
- It applies to:
  - Credit transfers.
  - Cash withdrawals at cash dispensers.
  - Card payments with debit and credit cards.

**Prices have to be the same,  
but underlying costs remain different → SEPA needed!!**

# The legal context

## Review of the Regulation

- **Timeline:**
  - It was adopted by:
    - The EU Parliament on 24 April 2009.
    - The EU Council on 27 July 2009.
  - It will enter into force on **1 November 2009.**
- **New issues:**
  - Includes **direct debits.**
  - Ensures reachability for cross-border direct debits.
  - Introduces a default interim cross-border interchange fee for direct debits.



# The legal context

## Payment Services Directive (PSD)

- Provides a **harmonised set of rules** for payment services in the whole EU community.
- Increases **consumer protection**.
- Increases competition by **opening up** the payment **market** for actors other than banks, which results in:
  - More efficiency.
  - Cost reduction.
- Provides a **legal platform for SEPA**.

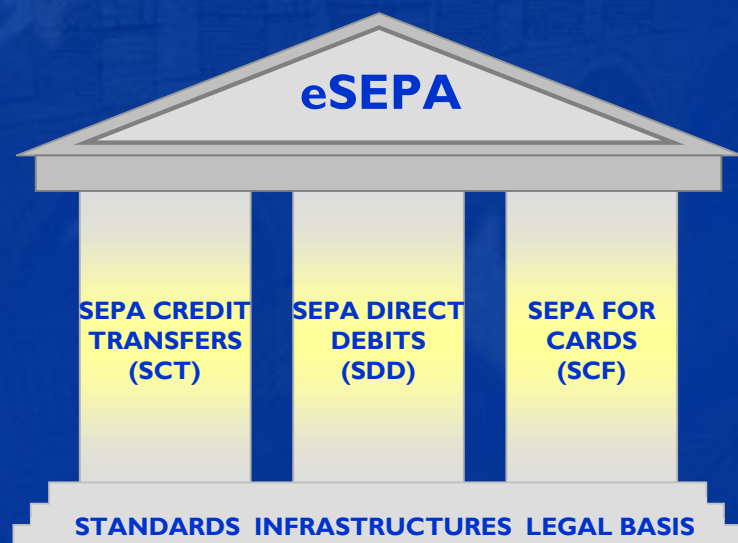
The provisions of the PSD will need to be implemented by all Member States by **1 November 2009**.



# What does the future hold for retail payments harmonisation in Europe

**Innovation**

# Innovation



- SCT, SDD and SEPA Cards are the building blocks on which innovation can be developed.
- Further innovation is necessary: in most countries retail payments lag behind with respect to the implementation of technological developments.
- Innovation should not introduce new fragmentation: SEPA-wide solutions are the way forward.

# Innovation

## What is the innovative part?

- **Electronic** use of the SEPA instruments:
  - Electronic payments.
  - Mobile payments.
- Combining SEPA payments with **value-added services** offered to customers before and after payment to ensure end-to-end STP.



# Innovation

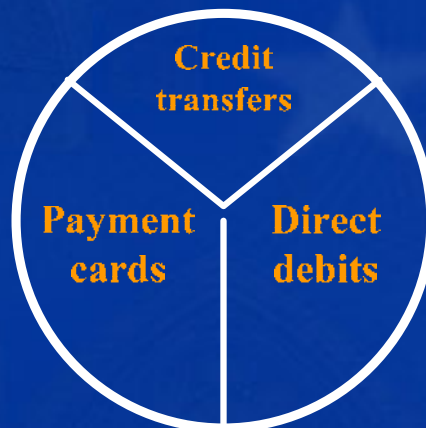
## Prior value-added services

E.g.  
e-invoicing

Online  
Payment  
initiation

Mobile  
Payment  
initiation

## E - p a y m e n t i n s t r u m e n t s



## Post value-added services

E.g.  
e-reconciliation

Online  
Account  
statements

E-tickets  
on  
payment cards

**I n i t i a t i o n - S e t t l e m e n t - C o n f i r m a t i o n**



# What does the future hold for retail payments harmonisation in Europe

**Possible impact on non-SEPA countries**



# Possible impact on non-SEPA countries

**SEPA instruments apply to payments in euro between payment service providers located in the SEPA.**

**However, SEPA can be a **source of inspiration** and information for other countries and/or geographical areas, heading for further economic and financial integration and/or modernisation of their payment system.**

# **What does the future hold for retail payments harmonisation in Europe**

**Thank you!**