



EUROPEAN CENTRAL BANK

EUROSYSTEM

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Experience of the ECB in payment system integration

The Single Euro Payments Area

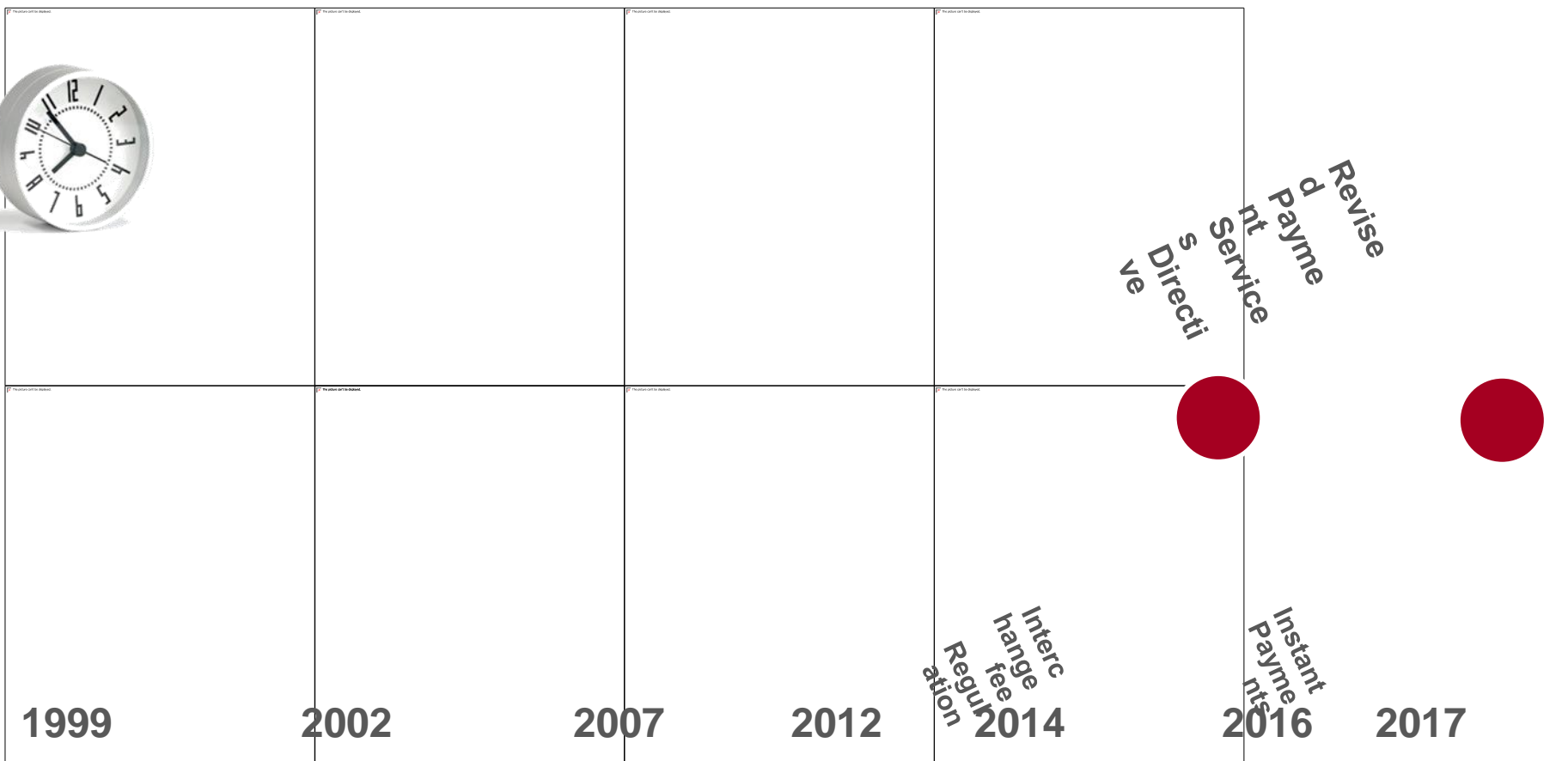
Cairo, Egypt, 18 April 2019

Agenda

1. **The Single Euro Payments Area (SEPA)**
2. **ECB's role as catalyst to foster integration**
3. **SEPA - a basis for innovation**
4. **Concluding remarks**

1. The Single Euro Payments Area (SEPA)

Timeline of EU payment integration A mixture of public intervention and private initiatives



The Single Market – an area without internal borders

Europe has had

- a *single market* for goods, capital, services, and people since 1993
- a *single currency with efficient RTGS* since 1999 (and cash as of 2002)

The missing piece of the puzzle has been a *single area for electronic retail payments*



The vision – one single payment market for consumers, companies and other economic actors

“One account, one card, one terminal”

- .Make and receive payments under the same basic conditions, rights and obligations, regardless of location.
- .Cross-border payments should be as *easy, efficient* and *reliable* as national payments.

The aim

through integration, harmonisation and standardisation

SEPA will drive competition and innovation

and thus bring better payment services for end users

SEPA → integration and modernisation of retail payments brings a multitude of benefits

One payment account

One payment card

Faster, cheaper and simpler payments

Consumers

Saving time and cost (harmonised and faster payments, consolidation of accounts, streamlined back office, optimised cash mgmt. and etc.)

**Merchants/
companies**

One payment terminal
(more choice of acquirers)

Automated processes
(e-reconciliation/invoicing)

Cost-efficient processing

Increased market efficiency

Increased competition / a level playing field

**Payment
service
providers**

**Infra-
structures**

Market consolidation

Harmonisation and interoperability

EU-wide reachability of all payers and payees.

The first steps towards SEPA

December 2001:
Regulation 2560/2001
on cross-border
payments in euro

Reg 2560/2001:
a shock to the
banking industry
in Europe

June 2002:
European banks set
up the European
Payment Council
(EPC)

Banks are not permitted to apply different charges for domestic and cross-border credit transfers, card transactions or ATM withdrawals in euro within the EU



Establishing the Single Euro Payment Area (SEPA) to speed up the modernisation of the cross-border retail payments infrastructure,

The challenge – a harmonised set of payment instruments

The European Payments Council

2005: SEPA cards framework (SCF)



2008: SEPA credit transfer scheme (SCT)



2009: SEPA direct debit scheme (SDD)



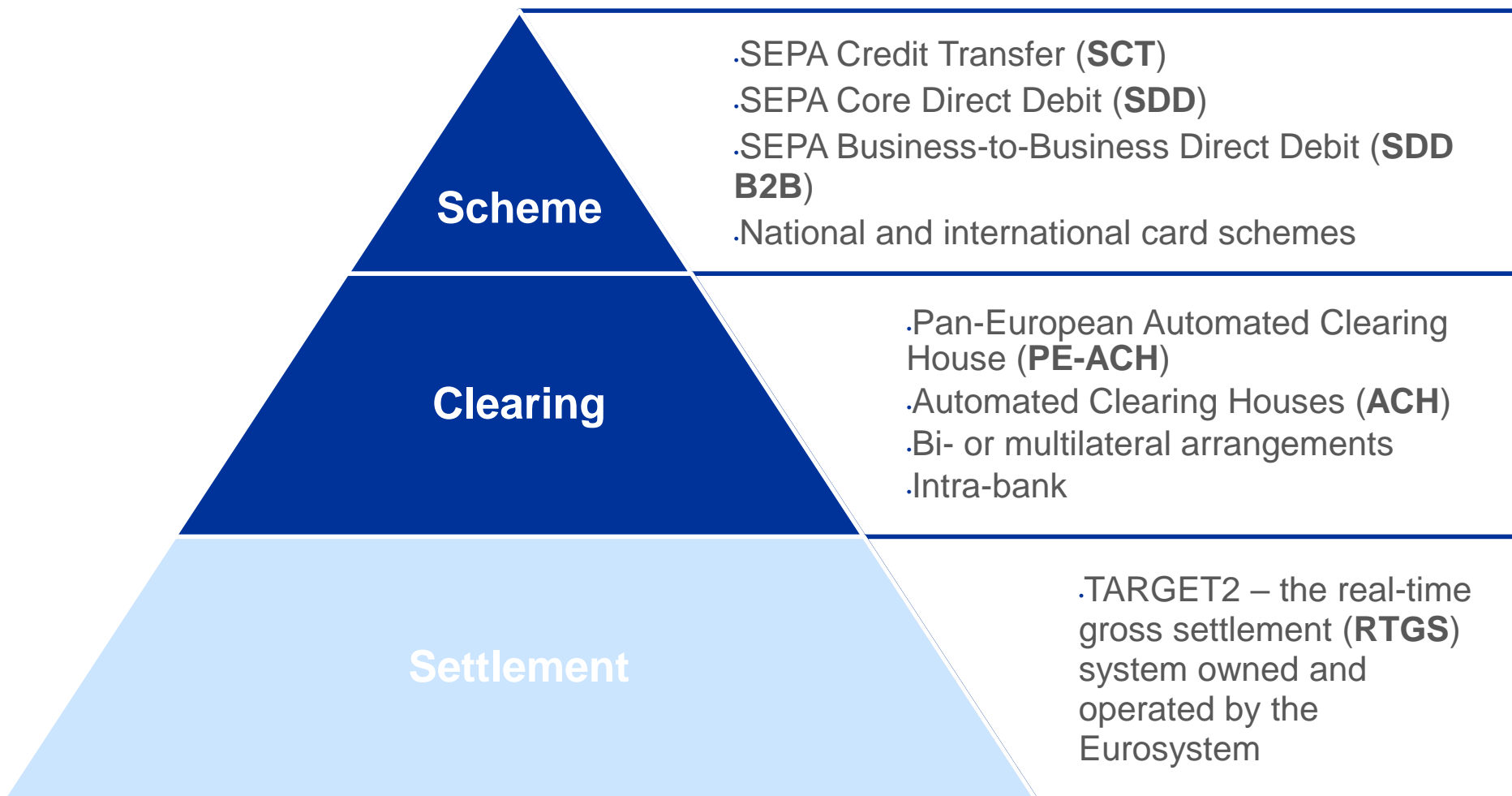
.IBAN

.ISO20022 XML

.Payment cards: migration from magnetic stripe to EMV chip

.Standards for payment cards and terminals

The layered approach of SEPA



The SEPA project, about 16 years on...



SEPA now covers 36 countries (currently 28 EU Member States and 8 non-EU countries/territories)



Fees for cross-border credit transfers have dropped by around 90%



Transaction time has decreased from 3 days to maximum 1 day in 2012 and now moving to instant

Cross-border direct debits introduced in 2009



All credit transfers and direct debits in euro area according to SEPA standards since 1 August 2014



The majority of card Point-of-Sale-transactions now done with EMV-chip

2. ECB's role as catalyst to foster integration

The objectives of the catalyst role

Financial integration is a market-driven process, but coordination problems can occur and interests need to be balanced.

In its catalyst role and as neutral party the Eurosystem tries to promote and weigh interests related to:

1. Safety / security

2. Efficiency

3. Market integration

... from the perspective of the economy as a whole.

The results are not always directly visible nor measurable, but this doesn't cut the relevance of the catalyst role

An effective catalyst needs **good knowledge** of the market, a **vision** and a **strategy**;

right contacts and **good relations** for facilitating a dialogue between the demand and supply side of the payments market;

and be **persistent** in achieving its vision and **influencing the end-result**.

- .Achieving results with moral suasion takes time.
- .However, without the threat of regulation, developments may come to a halt due to network effects, conflicting interests or diverging priorities

The ECB's catalyst role in SEPA – core messages

- .Harmonisation of credit transfers, direct debits and cards is the foundation, *new solutions should focus on access channels* to these instruments
- .New market players and their solutions should not lead to new market fragmentation
- .*Competition in the market – not for the market*: cooperation is core, esp. on standards and business rules
- .Layered industry models instead of silo approaches



Involvement of authorities justified – retail payments have high economic and social relevance, and come with considerable social costs

Legislation was needed to provide the legal basis

Intervention by the EU legislator needed to move the market towards:

- competition
- Integration
- harmonisation

Good governance is:

- .Essential to advance market integration, innovation and security*
- .All about weighing various interests*

Ease of use

Competition

Regulation



Security

Cooperation

Self-regulation



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.The ERPB was created by ECB Governing Council in December 2013 to:

- .address retail payment issues in their broadest sense at European level by means of a high-level dialogue between banks, other payment service providers and end-users of payment services;
- .contribute to and to facilitate the creation of an integrated, competitive and innovative market for euro retail payments in the EU, based on a level playing field;
- .start of a new phase in the European retail payments integration process after the SEPA migration.

A cooperative approach reinforced by the Europe-wide reach of the ERPB, combined with an output-driven focus

ERP

Achievements

- .Supporting final migration to SEPA credit transfer and direct debits
- .Initiating work on an instant payment scheme
- .Recommendations on interoperability for P2P mobile payments
- .Recommendations on e-mandates
- .Recommendations on mobile and card-based contactless proximity payments
- .Promoting card standardisation

Work underway

- .Closely following the industry's implementation of instant payments
- .Contactless proximity payments
- .Card standardisation
- .P2P mobile payments
- .Analysis of barriers to take up and integration of e-invoicing solutions
- .Integration of payment initiation services

3. SEPA - a basis for innovation

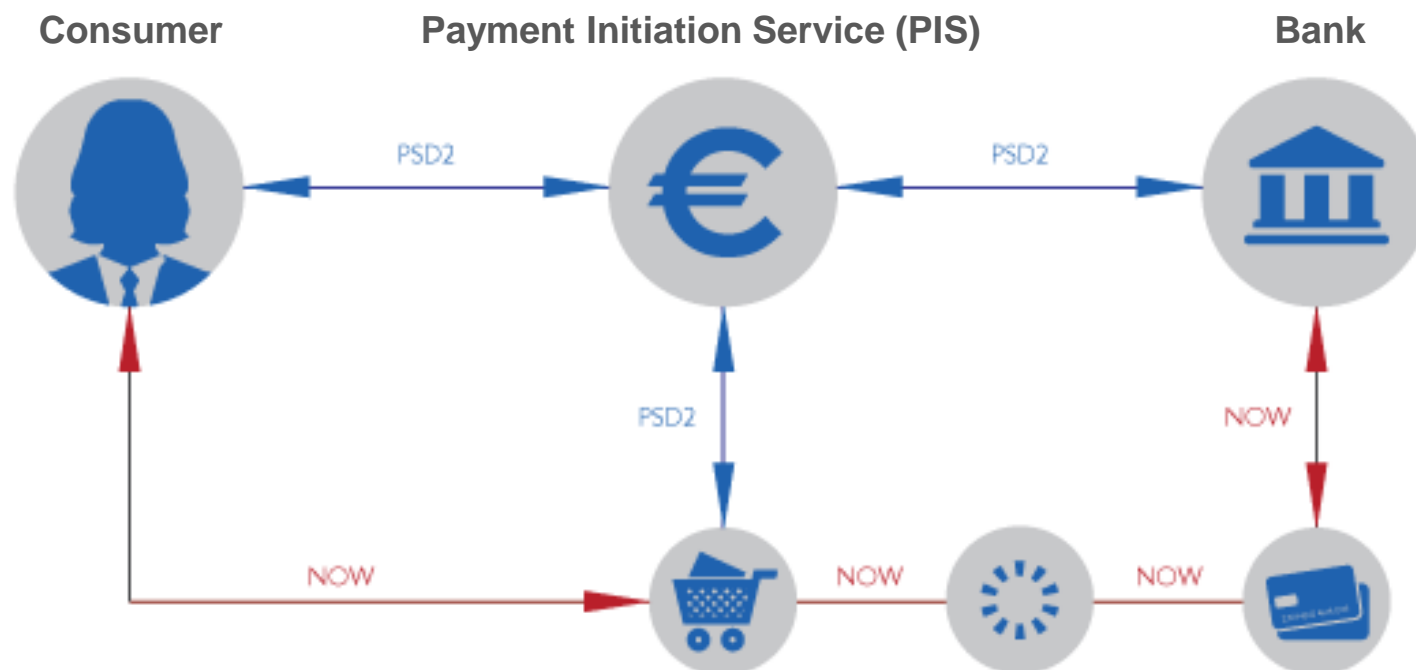
Instant payments based on SEPA instruments

- Instant payments potentially the “**new norm**” for retail payments
 - Impact on other means of payment (e.g. cash, cards)
 - Expected to grow particularly strongly in e-commerce
- P2P mobile payments will be a **key driver** for instant payments in Europe
 - A standardised proxy lookup has been developed to enable cross border P2P mobile payments
- Central banks increasingly involved** in their roles as catalysts, operators and overseers
 - Eurosystem’s TARGET Instant Payment Settlement (TIPS)
- 2057 payment service providers (March 2019) have already joined the instant payments scheme, i.e. 50% of European PSPs.**



Payment Initiation Services (PIS)

Payment Services Directive (PSD2) formalises access to the payment account by third-party providers (TTPs)



Common account access criteria will allow for new European players to compete with banks.

4. Concluding remarks

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• **SEPA**: has brought more efficient retail payments

- a long journey with legislation necessary, banks slow to act
- harmonised business rules, practices and principles are key for efficiency as is the existence of common technical standards
- common schemes are needed: SCT, SCTinst, SDD

• Need for cooperation and a **governance structure** at European level => **ERP**

• Integration brings new opportunities (and risks) => **innovation**

- ❑ should not lead to new fragmentation
- ❑ pan-European instant payments
- ❑ new competition via payment account access

For more information please visit ...

www.erpb.eu

www.retailpayments.eu

www.europeanpaymentscouncil.eu

www.ecb.europa.eu/paym/html/index.en.html

ec.europa.eu/internal_market/payments/sepa/index_en.htm