

SEPA for cards – a great opportunity for Europe?

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(translation)

Ladies and gentlemen,

The opportunity to implement SEPA must not be missed. As I already said last year in this conference, SEPA is the logical next step following the creation of the single European market and the introduction of the euro.

To put it succinctly, the euro area has around the same population as the United States. There is no separate payment system for Texas or Connecticut. In order to allow Europe to become as efficient as the United States, it will be necessary sooner or later for the German and Slovenian payment systems to be discontinued or merged to form one bigger, more efficient system.

Cards are one of SEPA's most important components. With the exception of cash, cards are the most frequently used payment instrument in Europe. In 2006 15 billion card payments were made in the euro area (with 25 billion made in the EU as a whole).

You have asked me **whether the SEPA for cards is a great opportunity for Europe**. I would say that, **so far, Europe has not been a great opportunity for cards !**

Allow me to explain this. Most card payments are made with national cards. Cardholders are, in general, very satisfied with this situation. Merchants are sometimes more critical of card payments, but they nonetheless have a clear preference for national cards over other cards.

However, national cards do not meet the requirements of SEPA, as their actual coverage is limited to a certain geographical area. As a result, many banks are considering suspending the national cards and replacing them with VISA and MasterCard.

This situation gives rise to a double contradiction. Although SEPA is intended to bring about advantages for bank customers, it could lead to the disappearance of user-friendly national cards. And although it is intended to strengthen the European financial market, it could create a duopoly comprising two card providers that have their roots in America.

For this reason, we have spent the last year or so trying to encourage the creation of a new European card scheme that can compete with the international card schemes.

What role can the national card schemes play in this? I am aware that the competition authorities in Finland and Belgium have adopted a clear position against the discontinuation of national card schemes, and the European Commissioner for Competition, Neelie Kroes, has also supported the retention of these schemes.

However, we must not lose sight of the fact that purely national solutions are not long-term SEPA solutions. As I have said, sooner or later, under SEPA, there will no longer be separate German or Slovenian card schemes.

This does not mean that national card schemes should be discontinued as quickly as possible. The immediate goal is for card schemes from now on to adapt their business models to the reality of SEPA. This includes separating management and processing and the issuance of EMV cards. Cards must have the potential to be used in the whole of the SEPA area. A Spanish merchant in Palma de Mallorca should be in a position to select a French bank as the acquirer for an EC card payment made by a German tourist.

In a speech that I gave in October in Paris, I set out the possible features of future European cards, and I will not repeat these today. The European Central Bank is currently preparing a report that examines the possibility of national card schemes converging to form one or more European schemes. Today, I would prefer to hear *your* thoughts on the subject.

I would, however, like to raise four points that are, in my opinion, essential if Europe is to reap the benefits of a SEPA for cards.

My first point is **competition**. In contrast to the national card markets, Europe is large enough for both economies of scale *and* competition. Our aim is not to prevent VISA, MasterCard, American Express and others from competing in SEPA. Our aim is to ensure that the existing national card schemes and their corresponding business models do not founder under SEPA. However, we do expect that in the future, under SEPA, different card schemes will compete with each other in terms of products, business models and corporate structures.

My second point is **standardisation**. As long as technical obstacles exist that prevent the use of cards at different terminals within Europe, it will be difficult to implement Europe-wide solutions. The EMV standard for the use of chip and PIN at terminals is a good start. Further intensive work is needed in the area of terminals, for example as regards payment software and terminal interfaces. Standardised and independent certification of terminals is also needed. We expect all participants in this standardisation process to work together constructively. By the end of this year a consensus needs to have been reached on the minimum requirements in this regard.

My third point is **profitability**. This point is often not considered by the authorities. It is clear that European banks will only develop a new card scheme if it is economically expedient and has profit potential.

My fourth point is **legal certainty**. This particularly concerns interchange fees. We have pointed out in a number of publications that what we need here is explicit clarification of what is legal and what is not. Banks cannot invest while they are unclear on this matter.

In this respect, the Decision of the European Commission last month was very helpful. I know that this Decision caused some controversy, but there is nothing to be gained by challenging it. The Decision corresponds to the provisions of the Maastricht Treaty and was adopted after a long period of investigation. I interpret the Decision as meaning that interchange fees in general are not illegal, but the special interchange fees that MasterCard charges for cross-border card payments within the European Economic Area are illegal.

I can understand that this Decision is not sufficient to allow the development of a new business model. This means that further discussions, based on the Commission Decision, are necessary between banks and authorities.

Before I make my concluding remarks, I would like to say a few words about the Euro Alliance of Payment Schemes (EAPS) – and not just to be polite to Oliver Hommel, who will be speaking next. EAPS is currently the only model that tries to “recycle” existing national schemes. We have praised this initiative in the past and I will continue to do so. However, I would like to say that EAPS still needs to make further efforts to encourage participation by card schemes and banks from all countries of the euro area. I would also like EAPS to aim not only to link schemes together, but also to merge them in the long term. The interlinking of schemes is a positive aim in the short term. However, in the long term it would, like co-branding, amount to a “mini SEPA”.

Conclusion

Europeans have been very successful in the development of card schemes. However, the national card schemes do not reach beyond the borders of their countries. This success should now be repeated at the European level. I anticipate the development of one or more additional European card schemes based in Europe. As a committed European, I even anticipate the development of international card schemes based in Europe. These card schemes could compete with other international schemes that have their roots in America or Asia. Europe would then truly reap the benefits of a SEPA for cards. We should not miss this opportunity!

Thank you very much for your attention.