Speech delivered by Daniela Russo,  
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“The tiger, the ox and the rat, and the future of retail payments in Europe”

Ladies and gentlemen,

It is a great pleasure for me to participate in the European Payments Council’s offsite meeting for the first time today. Since 2004 Mrs Gertrude Tumpel-Gugerell has been presenting the ECB’s views and expectations regarding the Single Euro Payments Area (SEPA) to the EPC Coordination Committee. Today, I have the honour of taking over and I hope that I will be able to shed some new light on the future path of the SEPA project. More specifically, I will analyse where the SEPA project stands now compared with 2008 and the three most crucial issues that, in the ECB’s opinion, need to be addressed now to pave the way for 2010.

According to the Chinese calendar, 2008 was the year of the rat, which means the beginning of a new cycle, a time of new opportunities and fresh starts. For the SEPA project, this has been true to some extent. The go-live of the SEPA credit transfer (SCT) in January 2008 doubtlessly marked the beginning of a new chapter in European retail payment history. Unfortunately, not all market actors took the opportunity for a fresh start in 2008. It took more than one year for the SCT to reach a point where it was used for more than just cross-border payments. However, in the first half of 2009, its share in total credit transfer transactions more than doubled, reaching 4.4% in July 2009. And there is reason to hope that the adoption rate will accelerate further in the second half of the year, given that the public authorities in a number of countries have planned to start using the SCT scheme by the end of 2009.
Some more serious hurdles that blocked the way towards the realisation of SEPA in 2008 related to the SEPA direct debit (SDD). These hurdles featured most prominently in Mrs Tumpel-Gugerell’s speech of last year. I am pleased to note that substantial progress made on the SDD dossier has removed most of these hurdles.

First, the further clarification on multilateral interchange fees (MIFs) published by the European Commission and the ECB in March provided the market with a clear scenario for the medium as well as the long term. Second, the adoption of the reviewed regulation on cross-border payments in euro by the European Parliament and the EU Council ensures reachability for direct debit transactions as of 1 November 2010. Third, the EPC Plenary’s final adoption of the SDD rulebooks made it possible for banks to sign up for participation in the SDD schemes and to start delivering euro direct debit services as of 2 November 2009.

The second issue that was raised by Mrs Tumpel-Gugerell last year was the need for a migration end-date for the SCT and SDD. Here too considerable progress has been made. There is widespread awareness of the end-date discussion in all domains. A number of banks, corporates and European institutions such as the ECB have expressed the view that the most viable option for determining a migration end-date is through regulation by public authorities. However, we are aware that some stakeholders have reacted negatively to the proposal of a migration end-date. At least some of these more sceptical responses are due to the fact that potential users still do not know enough about SEPA and its advantages.

The need for more communication was the third issue raised by Mrs Tumpel-Gugerell last year. I would argue that this is the point where the least progress has been achieved. Although the EPC has met its goal of providing accessible information material, the information has not reached the final layer, the customer domain, sufficiently yet. Thus, I can only reiterate what was said last year, i.e. that the individual banks need to provide better information to customers and, even more importantly, to convince them of the benefits of SEPA with attractive, high-quality product and service offerings.

The year of the rat being past, we are now in the year of the ox. Chinese wisdom suggests that this is the year of slow but sure action, of building to last, and of the
need to make good choices, as what is undertaken now is likely to have long-term consequences. Can we apply this general advice to SEPA? Let me address three areas where good choices are required now:

1. Retail payment innovation
2. Retail payment governance
3. Card schemes and card standardisation

**Harmonisation and innovation – the yin and yang of the future of European retail payments**

The harmonisation of retail payment instruments and standards is a precondition for overcoming the current fragmentation and creating a competitive European retail payment market. Academic research has shown that consumers in competitive retail payment markets benefit from more choice, quicker execution of payments and greater efficiency. But harmonisation alone will only go half the way. Chinese philosophy teaches us that everything in existence is based on the complementary opposites within a greater whole, the yin and yang. If integration and harmonisation are the yin of the future of European retail payments, innovation and modernisation are the yang.

As the yin cannot exist without the yang, the basic SEPA instruments that have been delivered so far need to be complemented with innovative features to be able to keep up with user expectations and market realities. For instance, while more and more consumers do their shopping online, appropriate payment solutions for e-commerce with a pan-European reach have yet to emerge. The card, which is still the instrument most widely used for online purchases, is clearly not the most suitable instrument for remote payments, as shown by the increasing fraud rates for card-not-present transactions.

There is a high risk that banks will fall behind their non-banking competitors in this area of activity if the choices that need to be made now are further postponed. Thus, I encourage the EPC not to further delay the required work and decisions on the e-payments framework and the analysis of the possibility of embracing readily available
solutions in the market. After all, what is required here is not rocket science, but rather the adaptation of existing business models and the integration of innovative services into the payment value chain. The sooner banks can offer e-payment solutions to their customers throughout Europe the better.

As regards mobile payments and the related technology, while it can be argued that the growth potential for m-payments may be larger in developing countries than in industrialised countries, it cannot be denied that m-payments can fill a gap in existing payment services in the latter countries, for instance in public transport. They also have potential for person-to-person payments in social networks.

**European retail payment governance – how to steer the chariot**

Harmonisation and innovation in the European retail payment market will only be successful if we do not lose sight of the requirements and expectations of customers. It has been argued that up to 70% of innovations fail – often because companies develop their innovations without listening or talking to their customers first. Thus, stakeholder involvement and transparency from an early stage are a key requirement for good governance – be it at individual company, industry association or public authority level.

Etymologically, the term “governance” is derived from the Greek verb *kubernân*, which means to steer a ship or a chariot. Let me first say a few words on the EPC’s steering of the SEPA chariot. So far, the EPC has covered good ground, navigating around some major obstacles without any serious accidents. I expect this to continue, because without a credible and decisive EPC, an integrated European retail payment market is hardly imaginable. But the EPC will have to evolve by continuing to work on its own governance arrangements. It has the power to involve stakeholders and consult them on its deliverables. And as an executive body of payment service providers, it has to find appropriate ways to allow adequate representation of payment service providers other than banks (i.e. payment institutions) in its governance structure.
The European retail payment market benefits from a strong EPC and the self-regulating payment service industry. However, in the past year, it became obvious that there are limits to what self-regulation can achieve, e.g. in the MIF and the migration end-date debate. Good governance of the European retail payment market needs to go beyond the interbank and inter-payment service provider domain, taking into account general welfare considerations and balancing the (sometimes conflicting) interests of the different stakeholders. This is a task that the EPC cannot and should not attempt to perform. At national level, payment fora dealing with the social and political issues related to the retail payment market have been established in the past few years. At European level, such a structure has yet to be created. I think that such a structure would be a useful complement to the EPC in promoting the goals of SEPA, as it could:

1. ensure appropriate coordination and dialogue with national payment fora during the migration process;
2. promote innovative payment solutions in line with the objectives of the Lisbon agenda; and
3. provide transparency to end-users and all relevant stakeholders and involve them as market partners.

We are confident that such a structure would neither curtail the competencies of the EPC, nor take over the functions of the Contact Group on Euro Payments Strategy (COGEPS) and the SEPA high-level meetings, but would rather strengthen them, creating a win-win situation in the work towards our common aim of a strong, competitive and modern retail payment market in Europe.

**Waking the tiger – the SEPA for cards**

2008, the year of the rat, saw the beginning of a new cycle in retail payments with the launch of the SCT. And 2009, the year of the ox, will soon see the launch of the SDD. In comparison to these launches, however, the SEPA for cards has been less visible, particularly from the cardholders’ point of view. But the SEPA for cards is meant to have a profound impact on the way the cards market works. According to the Chinese calendar, 2010 will be the year of the tiger. We have to wake the tiger in the cards dossier now to overcome the stagnation of the work on the SEPA for cards. The tiger stands for bravery, courage and the readiness to take up leadership – qualities that are
required in steering the cards dossier. Business rules, standards and the creation of a new European card scheme need to be tackled urgently to bring the SEPA for cards back on track.

On business rules and standards, I call upon the EPC to show leadership, not necessarily by developing all the business rules and standards itself, but by setting a clear agenda, defining deliverables and agreeing on deadlines for the issues that are outstanding, e.g. a card processing and certification framework, more influence in and ownership of EMVCo\textsuperscript{1} and the PCI Security Standards Council, and coordinating the European financial market stance in the ISO community. Without a clearly identified coordinating entity, there is a risk that different standard implementation could create new technical fragmentation in Europe. In short, standards selection, a certification framework and a decision on its future role in the standard-setting bodies are the three areas where the EPC needs to take immediate action.

On the subject of a new European card scheme, I call upon Monnet, EAPS and Payfair to commit to their planned initiatives and go ahead with them. Although the playing field is still open to newcomers and some players might decide to join forces, it is time to get down to business.

**Conclusion**

In traditional Chinese culture, the *qi* (the flow of energy that sustains everything in existence) plays a very important role. To make SEPA a success, it is vital to take care that its energy flow is not interrupted. The EPC has a vital role in this process and I am confident that, with a strong governance structure in the European retail payment market, it can continue to play a central role in SEPA. Leadership and vision are required to exploit the potential offered by harmonisation and innovation in the European retail payment market. We know that this is not always an easy endeavour and that there have been and will be hurdles and obstacles blocking the *qi*, but remember: April showers bring May flowers. Having endured a wet season in which

\textsuperscript{1} The EMV standards body owned by American Express, JCB International, MasterCard Worldwide and Visa Inc.
uncertainty surrounded the SEPA direct debit, the launch of the SDD will see it blossom.

Thank you very much for your attention.