



EUROPEAN CENTRAL BANK

SEPA for cards: a contribution to a cashless society?

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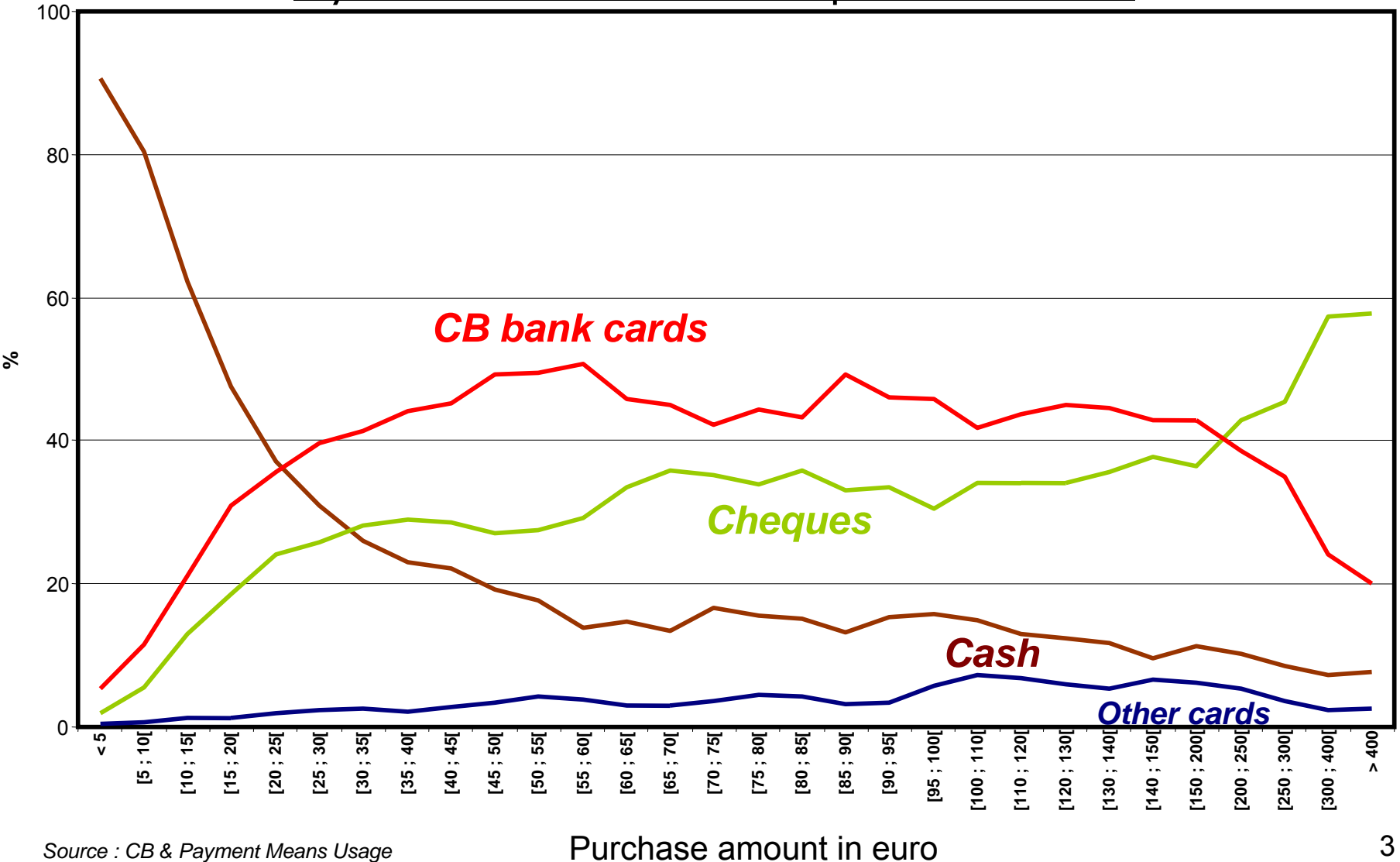
Cards and Payments Conference and Expo
Paris, 20 September 2006

Points to be developed

1. The importance of cards as a cashless instrument
2. The Eurosystem's vision
3. Different possible models
4. Interchange fees
5. The ECB's role
6. The future of retail payments in Europe
7. Conclusion

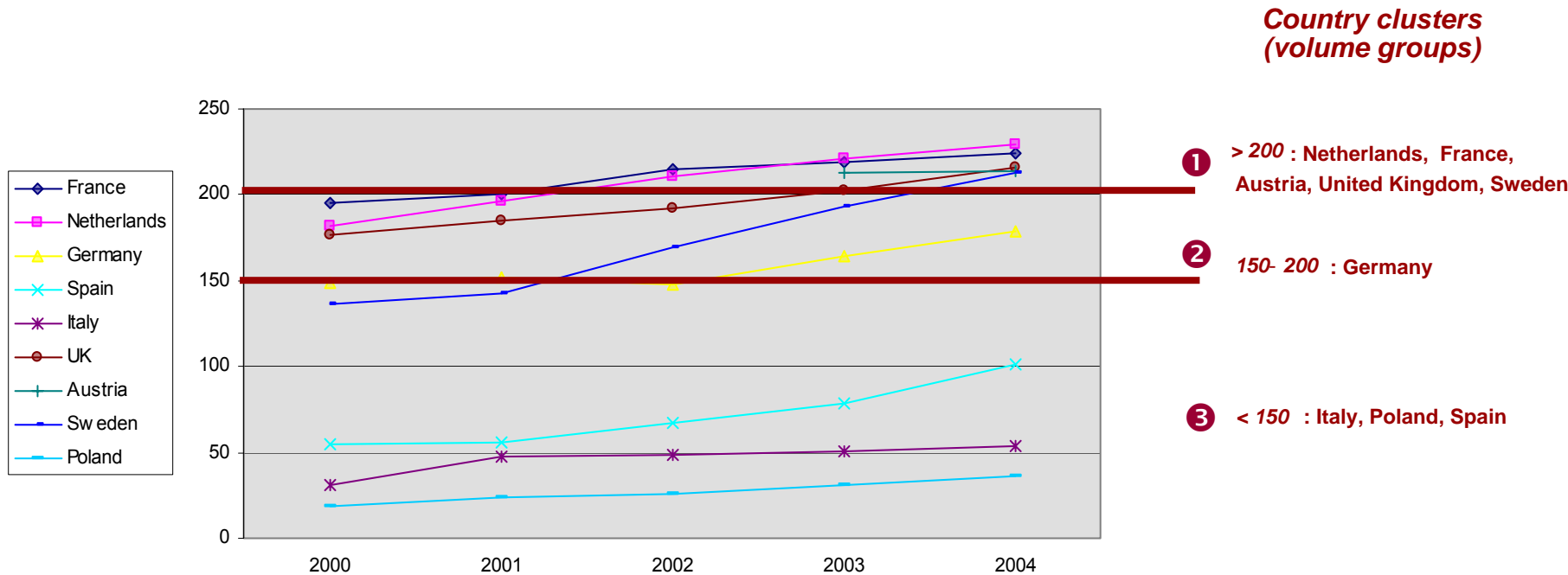
The importance of cards as a cashless instrument

Payment instruments in France: purchase amounts



The importance of cards as a cashless instrument

Evolution of non-cash transactions per inhabitant per country

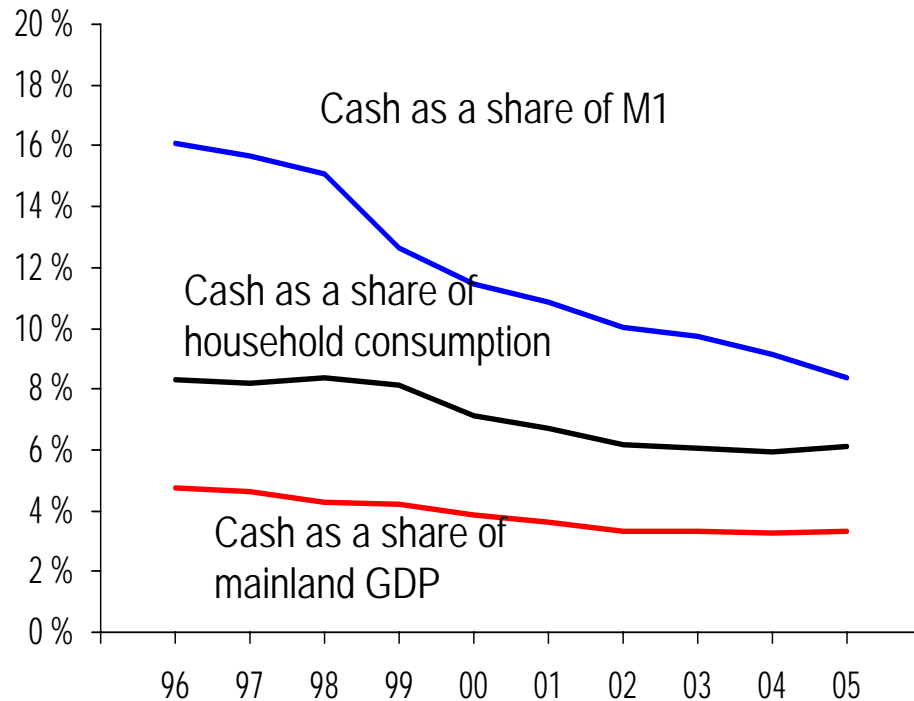


Note : Austria : Data begins in 2003, reflecting a Central Bank change in methodology used to count transactions after 2002.
 Sweden : 2003 - 2004 figures are corrected to reflect transactions processed by PlusGiro (acquired by Nordea in 2002) which were not represented in the original Blue Book figures.

Source: World Payments Report 2006, Capgemini/ABN-AMRO/EFMA

The importance of cards as a cashless instrument

Norway: Value of banknotes and coins in circulation
as a share of M1*, household consumption and mainland GDP 1996-2005.

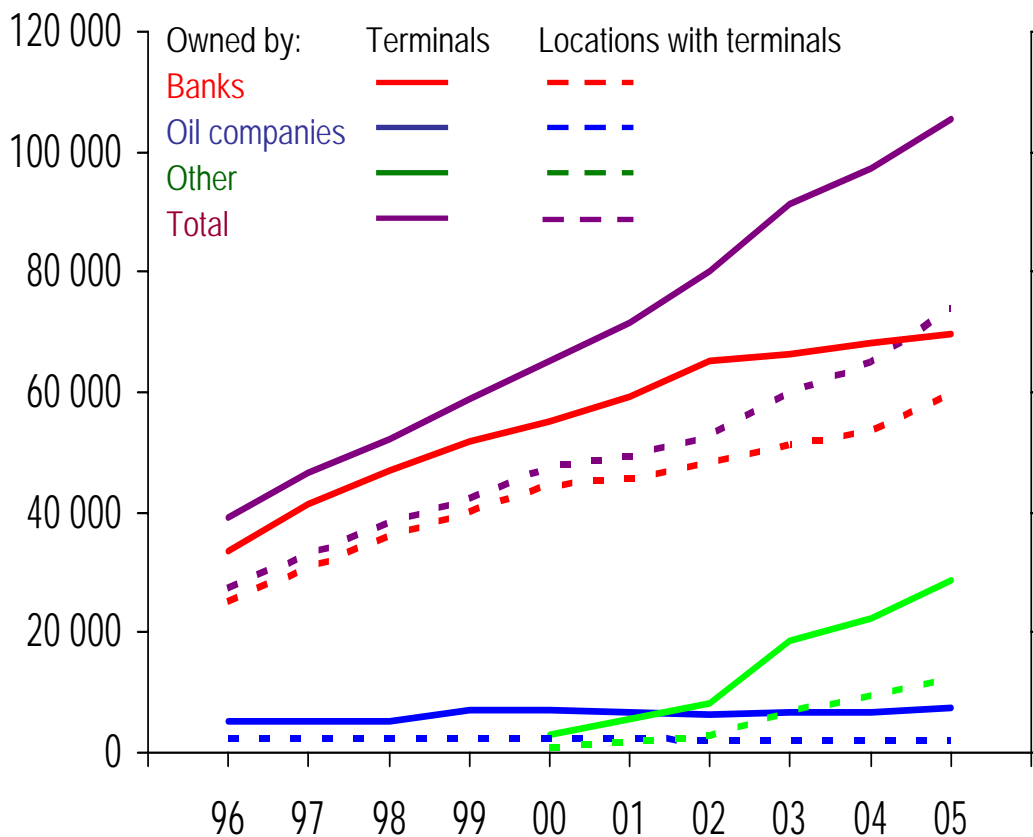


Sources: Statistics Norway and Norges Bank

*M1 is the money-holdings sector's holding of Norwegian banknotes and coins, as well as the sector's deposits in current accounts at Norges Bank and commercial and savings banks (in NOK and foreign currencies).

The importance of cards as a cashless instrument

Norway: Number of payment terminals and locations with terminals



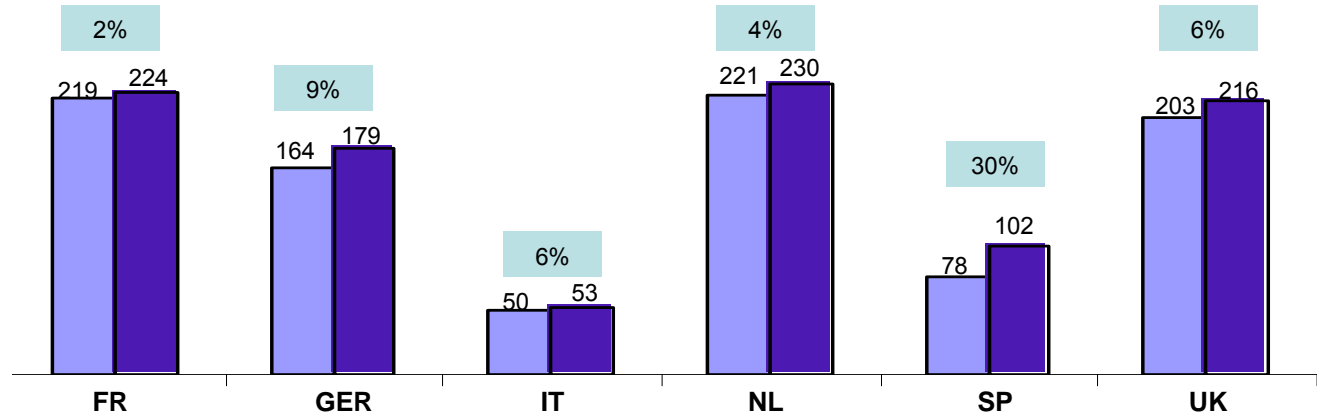
Source: Norges Bank

The importance of cards as a cashless instrument

Annual number of non-cash transactions per inhabitant

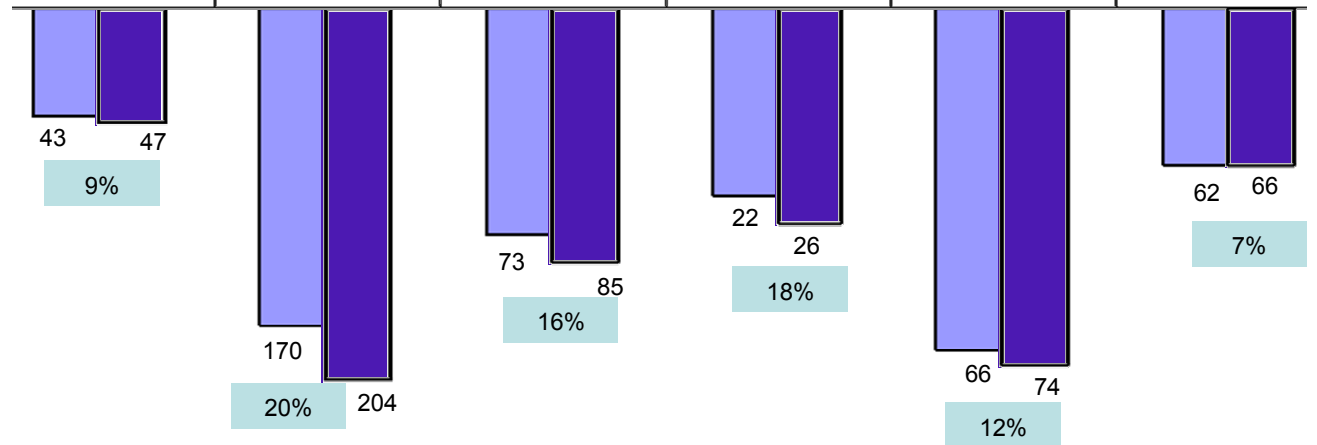
(Source: ECB Blue book 2006)

Source: World Payments Report 2006, Capgemini/ABN-AMRO/EFMA



Coins and notes in circulation (% of gross GDP and values in Euro billions)

(Source: respective national central banks)



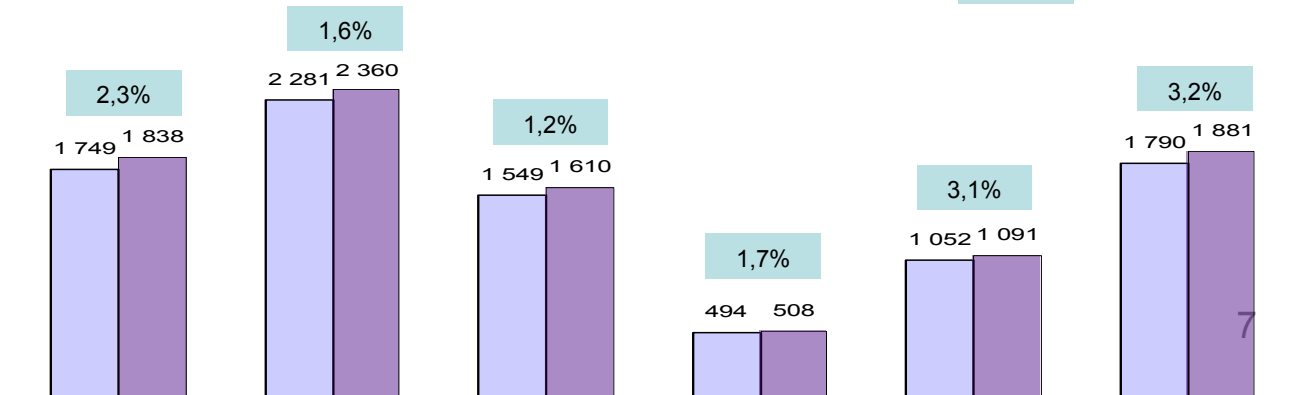
GDP in \$ billions (with real growth rate 2004 vs 2003)

(Source: OECD)

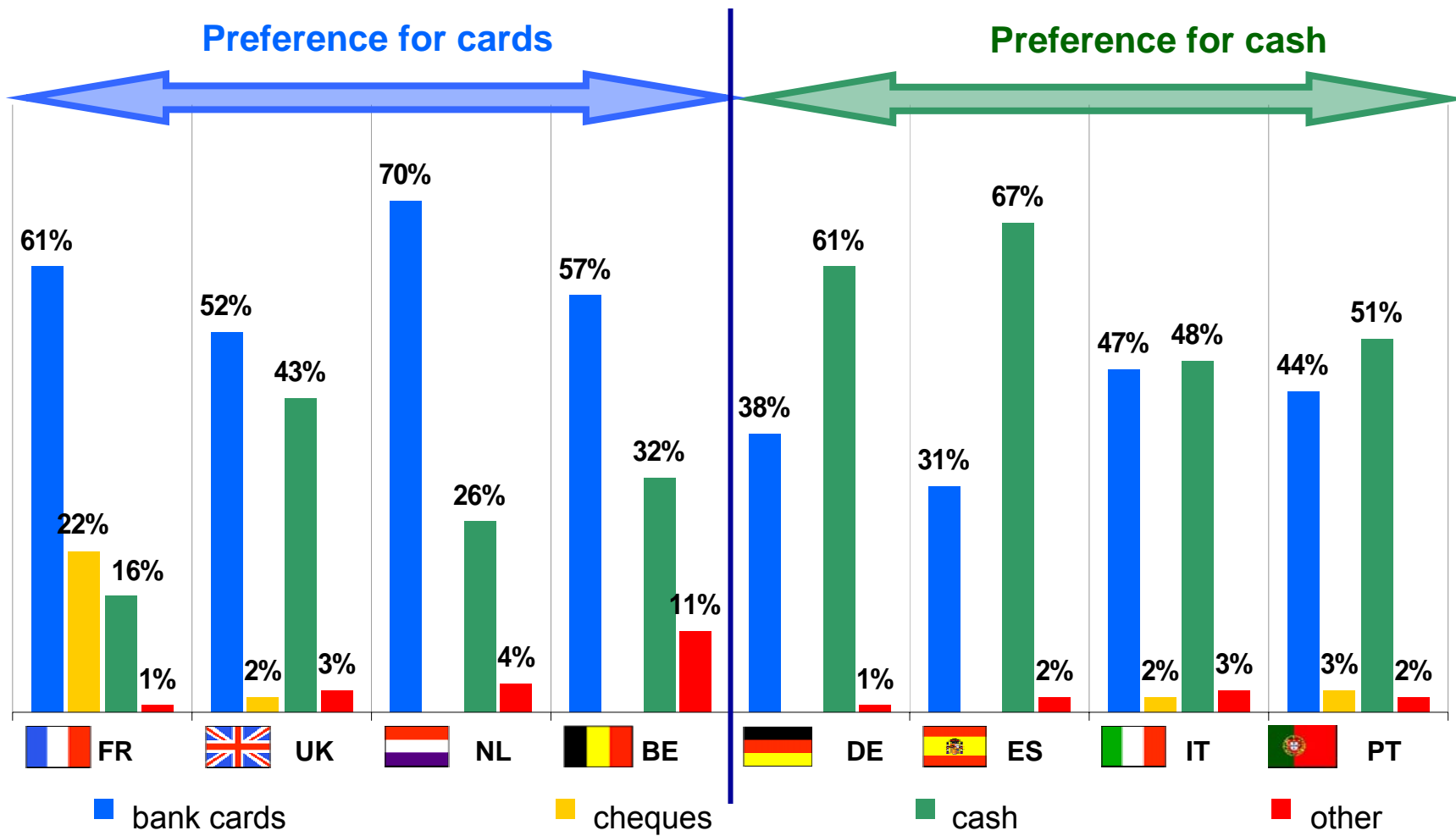
X% Growth rate 2004 vs 2003

2003 figures

2004 figures



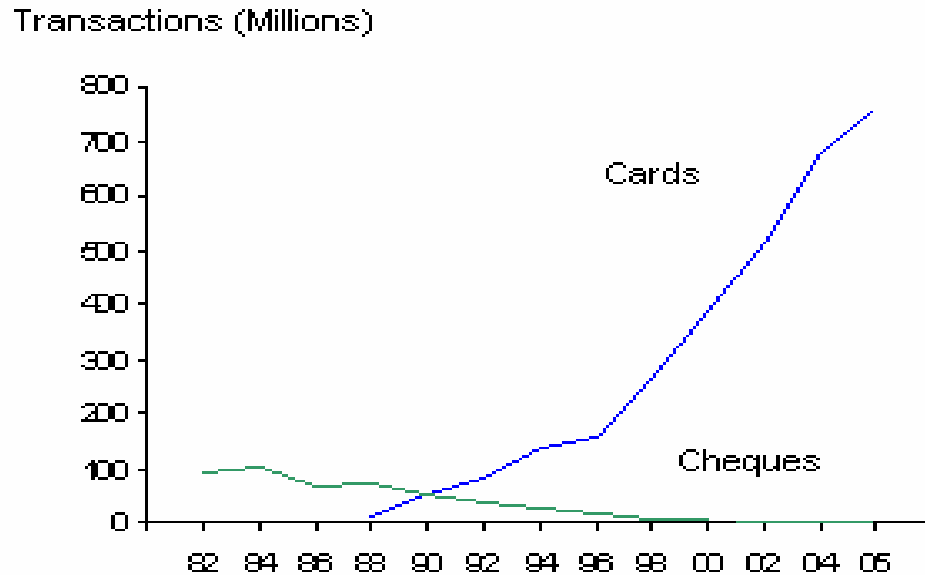
The importance of cards as a cashless instrument



Base : Adult population

The importance of cards as a cashless instrument

Norway: Number of cards and cheques transactions



Source: Central Bank of Norway

The Eurosystem's vision

Objective:

Usage of a card within SEPA should not depend on the country where it has been issued

The Eurosystem's vision

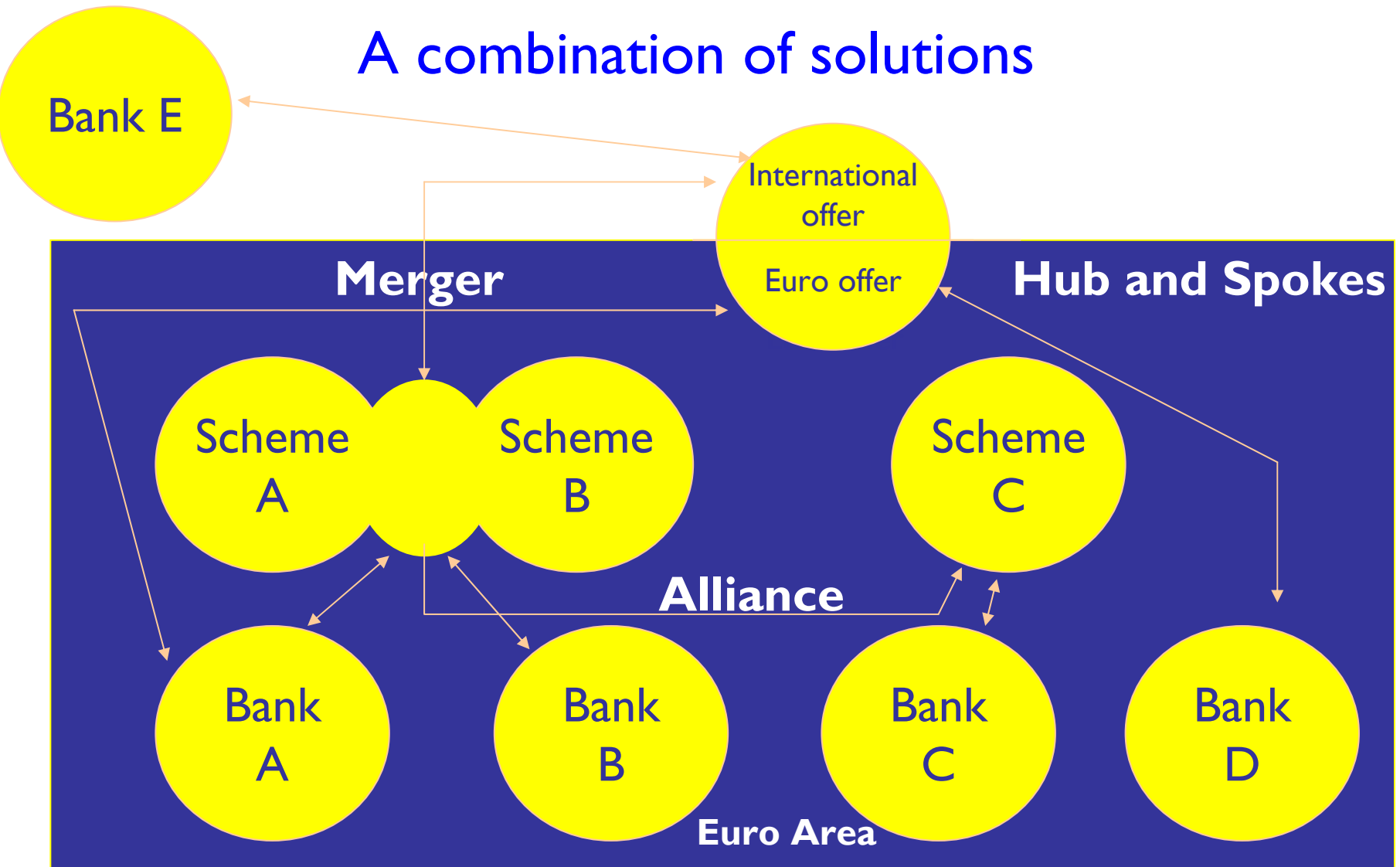
- The European Payments Council (EPC) issued a SEPA card framework (SCF) that is very general
→ implementation will be the real challenge
- Current standards are insufficient
→ more work needs to be done
- Concerns: SEPA could worsen the situation of card users
→ SEPA should not imply an impairment of the services provided

Different possible models

The three different models to become SEPA-compliant:

1. International card schemes replace national card schemes
2. Alliances among national schemes or expansion to the entire euro area
3. Co-branding between national and international card schemes

Different possible models



Different possible models

The Eurosystem is neutral towards the different models, but competition needs to be ensured:

- SEPA should mean more than two schemes
- International card schemes *and* national schemes have a role to play
- National card schemes offer efficient and inexpensive services in national markets
- Alliances/extension of operations to other SEPA countries may be a way for more competition

Different possible models

- Co-branding could freeze existing structures
- Co-branding not as a long-term solution for the SEPA, but may be needed as an initial step
- Contractual obligations of specific processing channel should be eliminated
- Experience of TARGET shows that interoperability may be a vehicle for consolidation

Interchange fees

- Transparency and competition are key
- Clarity on the stance of competition authorities is needed
- Cardholders should not be adversely affected by regulation

The ECB's role

- Facilitator (together with the Commission) to ensure that bank-led process does not lose momentum
- Direct dialogue with the end-users to clarify their expectations
- Together with national central banks, monitoring of implementation process
- ECB's Governing Council will discuss its assessment of the SEPA for cards soon

The future of retail payments in Europe

- SEPA is an *innovation* project not simply a conversion → a first step towards modernising payments
- Progress in information and communications technology should be used to offer better services
- Retail payments market offers business opportunities beyond current payment products
- Customers seem to be prepared to pay for enhanced services and innovative products

Conclusion

- The banking industry should step up its efforts to deliver a real SEPA for cards
- The cards market needs to be competitive
- SEPA is an opportunity to modernise the retail payments market
- A modern SEPA with attractive cards and other innovative retail instruments will reduce the use of cash