

## **Introductory remarks**

***by Pierre Beck, member of the BCL Executive Board***

on the occasion of

### **EBAday 2010 Euro payments conference and exhibition**

Luxembourg, 26 - 27 May 2010

Ladies and Gentlemen,

First I would like to say how honoured I am to speak to this distinguished audience.

#### **1. Why is SEPA still so important?**

Although I do not expect that there is still a need to convince the audience and the public at large of the benefits of SEPA, I nevertheless wish to underline the multiple challenges that SEPA has represented and still represents.

SEPA is one of the most complex industry wide projects that the financial sector has carried out in recent years. From a political viewpoint SEPA is rather simple, not to say self evident: why indeed should a payment in a monetary union and in a single market area be more complex, slower and more expensive than a similar payment in a domestic context?

To be in compliance with this very basic principle, it meant however that payment instruments, procedures and payment systems, which were very efficient in a national environment but not interoperable, needed to be harmonised and interconnected or extended to a European-wide reach.

This raised not only technical issues but also legal ones and the European Member-States agreed in 2007 on the Payment Services Directive to give the whole endeavour the necessary legal support.

Most of this work is well underway, but a lot of implementation work needs still to be achieved.

Therefore SEPA remains an important and sensitive project, especially in these days of crisis and economical uncertainty.

SEPA is together with the Euro notes and coins a tangible element of economical integration for European citizens and corporates. A partial success of SEPA would not be satisfactory for the European integration.

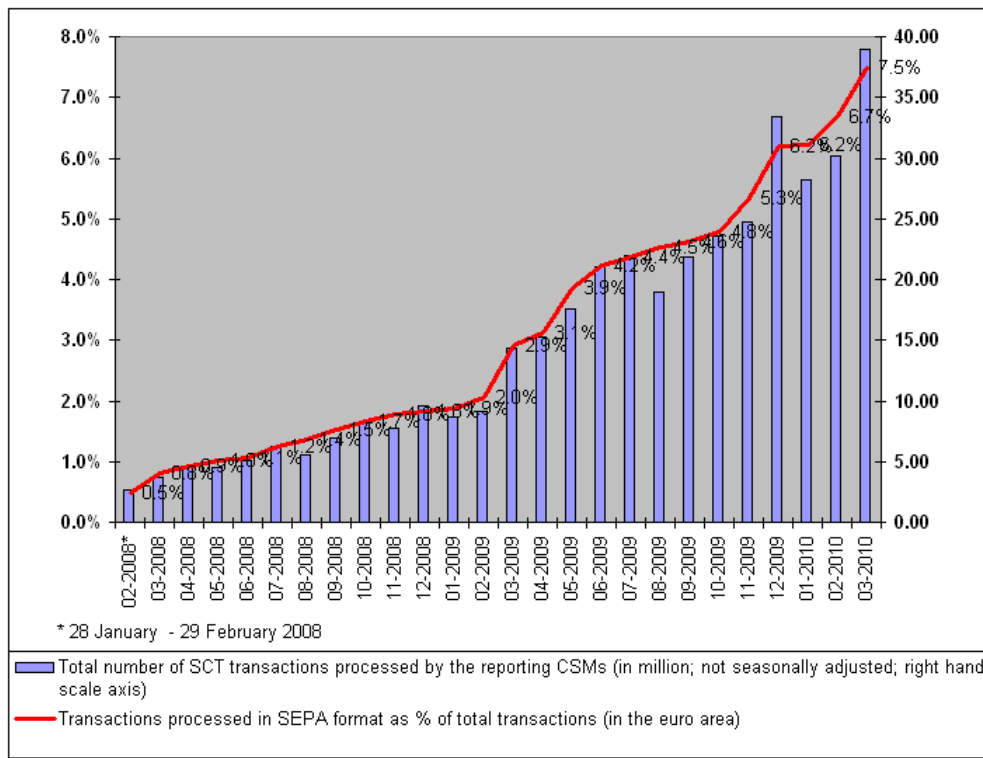
SEPA covers foremost retail payments. As such it is of relevance for consumers and the corporate sector, especially for SME. The benefit of SEPA for SME are the following: (i) fees of cross-border payments at a similar level than those of domestic payments (ii) legal certainty all over Europe, (iii) speed of execution, and (iv) standardization which makes the processing of payments easier not only for the banking sector but also for a corporate on both ends of a payment transaction. SEPA will thus be a strong support for increased cross-border trade within the monetary union.

## **2. Why is SEPA not yet there?**

If one looks at the progress made in the various SEPA work streams, it seems that there is more progress achieved in small countries than in the large ones. This might be due to the fact that smaller countries have more incentives, because they have a higher share of cross-border activity.

### **2.1. SCT**

These incentives worked well for SCT where existing products (like the cross-border payment) were replaced by the European Credit Transfer.



(source ECB internet site)

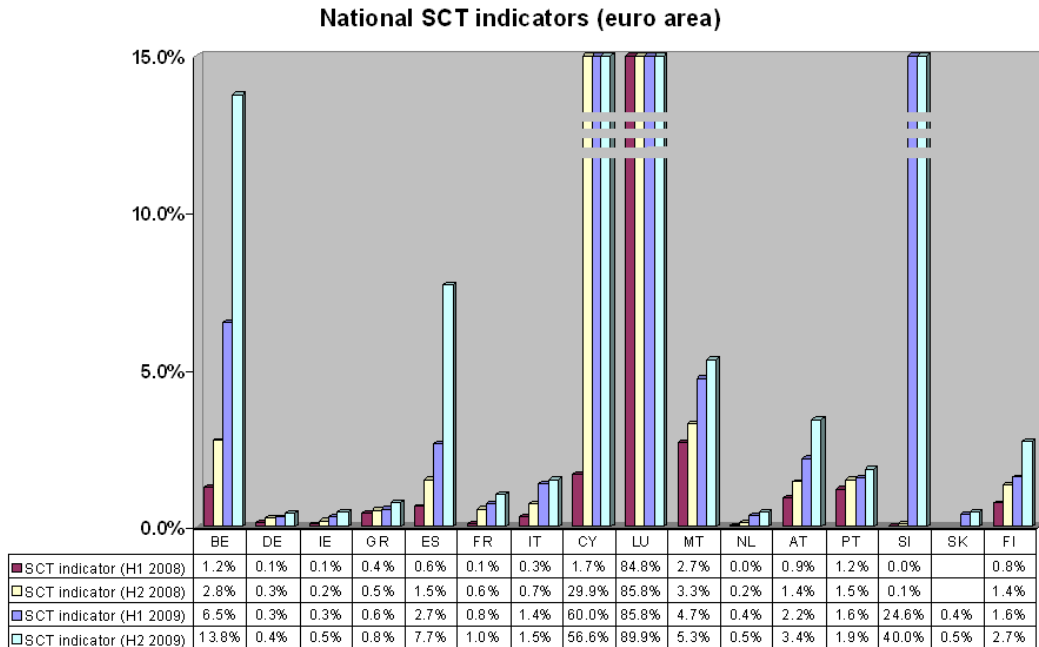
The red line on the chart shows the share of SEPA credit transfers (SCT) in the inter-bank domain as a percentage of the total volume of credit transfers (CT) - that is credit transfers in the "old" as well as in SEPA format.

The higher the value of the indicator, the higher the usage of the newly introduced SEPA product. The value of the SCT indicator has increased significantly in March 2009 due to the start of operation of a new system in Slovenia which will replace an existing one; most of the traffic has already migrated to SCT.

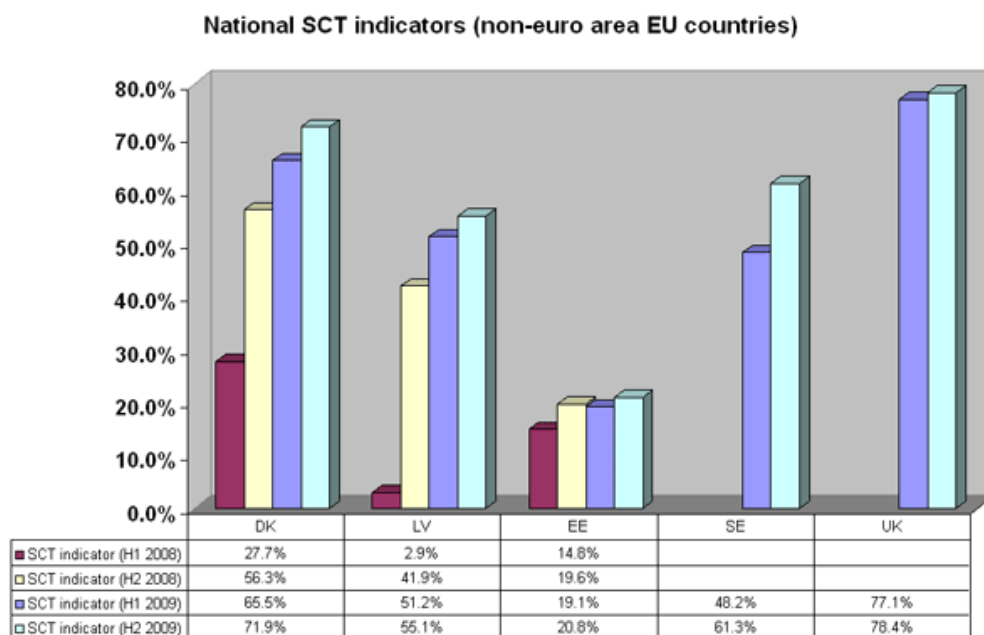
Although the relative increase of SCT is reassuring, the overall share of SCT is still far from being satisfactory and will require a close monitoring to make sure that an appropriate dynamic will remain.

The next slides present the share of SEPA Credit Transfer (SCT) transactions as a percentage of the total volume of all credit transfer transactions initiated in a country (i.e. credit transfer in the legacy format as well as SCT). The first slide presents the situation in the euro-area countries whereas the second deals with the non euro-area EU countries (euro transactions only).

**Indicators of the usage of SCT as a percentage of all CT transactions per country (euro area countries)**



**Indicators of the usage of SCT as a percentage of all CT transactions per country (non-euro area countries)**



It is worth noting that in general large countries have more difficulties than the smaller countries to generate high SCT volumes. There are however exceptions in

particular UK and DK which have reached a remarkable level of SCT usage. It seems to indicate that those countries which modernise their payment infrastructure switch in one go the core of their payment infrastructure to SCT.

## 2.2. SDD

- The use of the SEPA Direct Debit is still insignificant. This is due to the fact that direct debits did not really exist on a cross-border level until now. The new scheme SDD is hence a new product which might be the reason why it is difficult also for small countries to implement. Furthermore, some countries have not yet launched this new instrument (for instance France – plans to start migration in 2010, Spain in June, the Netherlands in July, etc.)
- An important date in this respect will be the November as regulation 924/2009 (repealing Regulation 2560/2001) will force banks (i.e. payment service providers) that accept national direct debits in euro to accept incoming SDD transactions ensuring the compulsory reachability of SEPA Direct Debit transactions.

## 2.3. Cards

The European central banks have encouraged the payment card industry to setup a truly European card scheme. The industry has responded with three initiatives:

- EAPS: a common initiative of existing card schemes
- Monnet: an initiative of banks
- Payfair: an initiative closer to the retailers

These initiatives take different approaches, have different focuses and are at different levels of maturity. EAPS processes transactions, Payfair has successfully tested its processing in controlled retail environments and Monnet has set the year end for a go / no go deadline for its project. Each initiative has pros and cons but have in common to be confronted to the cost of entry to market in an environment of capped income flow and high fraud levels.

Recent statistics show that in several countries, fraud has been on the increase. This is the case for two main types of transactions:

- cross-border transactions account for 3 to 6 % of the transactions but for 50% of the fraud,

- card-not-present transactions, i.e. web-based, account for 5% of transactions but sees fraud growing very quickly.

Fraud increases despite the migration to the EMV security standard (which is also at the basis of SEPA for cards). The ECB SEPA indicators show that EMV migration for cards and point-of-sales terminals has reached respectively 70% and 80% at the end of 2009 in the EU, but covers dissimilar situation ranging from 10% to full-migration. In the euro area, only 50% of the transactions at POS are EMV-based

Cross-border fraud is largely due to the lack of global coverage of the EMV standard and the liability shift which penalises the weakest link in card processing. The fraud issue has become a global question, leading to further considerations such as the need or not of the magnetic stripe on the SEPA cards and the geographical reach of a European scheme.

To sum up, in the field of SEPA for cards, we note the following facts: The dominance of big non European players (mainly in credit cards but also entering debit cards), the fraud issue and the slow progress of new initiatives.

### **3. New technologies**

Security of payments, especially when it come to cards, in the remote environment is even less satisfactory. There is a need to increase consumers' confidence in e-commerce and the related payment transactions.

Technical innovation and new user-friendly but secure access channels will give SEPA new impetus (see e/m-SEPA) and answer the need for sufficient security. It can even change European payment habits and increase efficiency when combined with other improvements like e-invoicing.

Benefits could be fully reaped only if solutions are widely available and interoperable. Hence the Eurosystem, the community of central banks which are in charge of the euro, is prompting the banking community to issue a framework for electronic payments, which provides for online payments with a payment-guarantee for web-retailers based on a SEPA Credit Transfer. This framework should contain minimum operational and technical requirements and ensure interoperability among e-payment schemes. Ideally, each bank in SEPA is a member of (at least) one SEPA compliant e-payment scheme and any account holder in SEPA can make SEPA e-payments. The approval of the SEPA e-Payments Framework is planned for June 2010.

Another major event coming up the next month will be the first meeting of the SEPA Council. It will gather all the stakeholders of SEPA, i.e. consumers, merchants, SMEs, corporates, public administrations, the Commission and the ECB, with the Eurosystem in restricted representation. The objective of the SEPA Council is to foster consensus on the next steps towards the realisation of SEPA.

#### **4. Conclusions**

This short update on SEPA and on side-issues linked to the migration to SEPA displayed several topics which will be discussed in the panel discussion later on. The Eurosystem welcomes the fact that the industry looks beyond SEPA to upgrade present systems and procedures and to innovate, but we also support its endeavour to optimise the financial supply chain for both sides: buyers and sellers.

Finally, as a representative of a central bank which has recently been entrusted with the supervision of the liquidity management of various financial institutions, I note with satisfaction that this conference aims to provide the audience with a better understanding of liquidity management and its link with the payment activity.

Ladies and Gentlemen, I thank you for your attention and wish you fruitful discussions.