



EUROPEAN CENTRAL BANK

The future of retail payment infrastructures in the SEPA

Francisco Tur Hartmann
European Central Bank
***Payment Systems and Market
Infrastructure***

Budapest, 21 October 2005

Points to be developed

1. SEPA: The ECB concept
2. The importance of retail payment infrastructures for the SEPA
3. SEPA compliant retail payment infrastructures
4. Options for the future

1. SEPA: The ECB concept

1. SEPA: The ECB concept

The creation of the euro is a political decision. It is a milestone in the European integration

- The creation of the Single Euro Payment Area contributes to this historic event
- The SEPA is primarily an issue for the euro area but will have repercussions throughout the EU
 - ✓ ECB: focus on the euro area
 - ✓ EU Commission: focus on the single

1. SEPA: The ECB concept

- Citizens (payers and payees) and corporates expect the euro area to function like one country i.e. one bank account and one card should be sufficient to make any retail payment, anywhere within the euro area in the most efficient and safe way
- Infrastructure for large-value payments (i.e. TARGET) doesn't make any distinction between national and cross border payments. Retail infrastructure does!

1. SEPA: The ECB concept

- The introduction of euro banknotes did not rely on any “business case” but was seen as a common good
- Likewise, the SEPA is not being built on a “business case” but is expected to generate social benefit for the citizens
- Solutions have to be found to achieve the SEPA while, in the end, the banking industry has to ensure that the payment business is profitable for them as a whole

1. SEPA: The ECB concept

- Banks and central banks have different responsibilities
 - ⇒ Central banks are responsible for central bank money (banknotes, TARGET)
 - ⇒ Banks are responsible for commercial bank money: payment instruments, retail payment infrastructures, → SEPA
- Central banks currently have
 - ⇒ Stronger governance
 - ⇒ More understanding for the “political case”

1. SEPA: The ECB concept

- The situation has improved substantially
 - ⇒ The European Payment Council has taken over leadership in the process
 - ⇒ The EPC has started producing
 - Credit transfer scheme
 - PEDD scheme
 - Cards framework
- A lot remains to be done, in particular in order to ensure the irreversible and complete migration from national solutions to euro solutions, within a reasonable time frame

1. SEPA: The ECB concept

What role for central banks?

- In general, the benefits of SEPA will be more for the users than for the intermediaries (banks)
- The role of public authorities (ECB, EU Commission) is therefore to ensure that a bank-led process does not lose momentum
- ECB has also engaged direct dialogue with the end users in order to clarify their expectations
- To ensure commitment from decision makers on necessary investments

1. SEPA: The ECB concept

- SEPA is not an option but an obligation.
Should banks fail to deliver, public authorities could have to step in (regulation, setting up of infrastructure)
- ECB is confident that the process is well on track.
The overall timetable is obviously an issue

2. The importance of retail payment infrastructures in the SEPA

2. The importance of retail payment infrastructure in the SEPA

- Streamlined retail payment infrastructures are required for cost-efficient processing of pan-European Instruments and card schemes for both national and cross-border payments in euro
- However:
 - 1) at present, most national retail payment infrastructures are calibrated to receive and process payments based on proprietary national standards
 - fragmentation
 - 2) at present only one PEACH
 - lack of competition

2. The importance of retail payment infrastructure in the SEPA

A streamlined retail payments infrastructure is needed in order to:

- Decrease the cost due to “halfhearted” solutions
- Allow interoperability
- Take the best players to the race
- Get the benefits of the economies of scale by consolidations

3. SEPA compliant retail payment infrastructures

3. SEPA compliant retail payment infrastructures

What means SEPA compliance for infrastructures?

- by 2008, euro area infrastructures will have to be in a position to receive and process payments made with the pan-European instruments/card schemes
- by 2010, infrastructures will have to be completely interoperable, enabling full competition and market driven consolidation
- beyond 2010, the number of infrastructures in the euro area will be reduced through competition

3. SEPA compliant retail payment infrastructures

1.) implications of the 2008 deadline:

⇒ For an interim period, retail payment infrastructures will be required to process pan-European and national standards in parallel or to effect a conversion between the two.

⇒ Processing of collection items (card payments, direct debit) requires full reachability

3. SEPA compliant retail payment infrastructures

2.) implications of the 2010 deadline:

⇒ Applies to all type of infrastructures (not only ACHs)

⇒ Retail payment infrastructures will either have to adapt their systems or build new systems

⇒ Common standards

3. SEPA compliant retail payment infrastructures

2.) implications of the 2010 deadline:

- ⇒ Access restrictions to the services of infrastructures and entry barriers into national markets need to be removed
- ⇒ Transparency of services and pricing
- ⇒ For processing pan-European national and cross-border payments, retail payment infrastructures should have the choice whether to use intermediary banks, PEACH or links to other retail payment infrastructures – full interoperability

3. SEPA compliant retail payment infrastructures

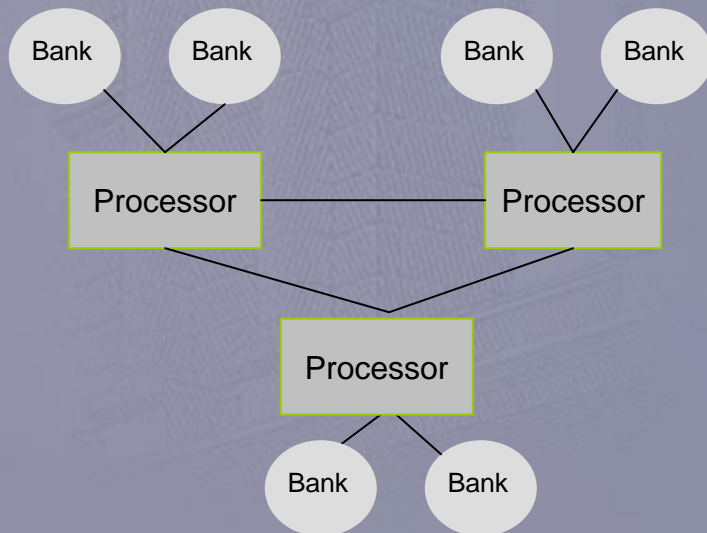
3.) implications beyond 2010:

- ⇒ With the opening up of the market to competition by the SEPA, pan-European economies of scale will emerge and consolidation around larger and more scaleable infrastructures will take place
- ⇒ Partnerships between infrastructures will be formed to exploit economies of scale
- ⇒ Some national retail payment systems that have matured and reach the end of their life cycles will close

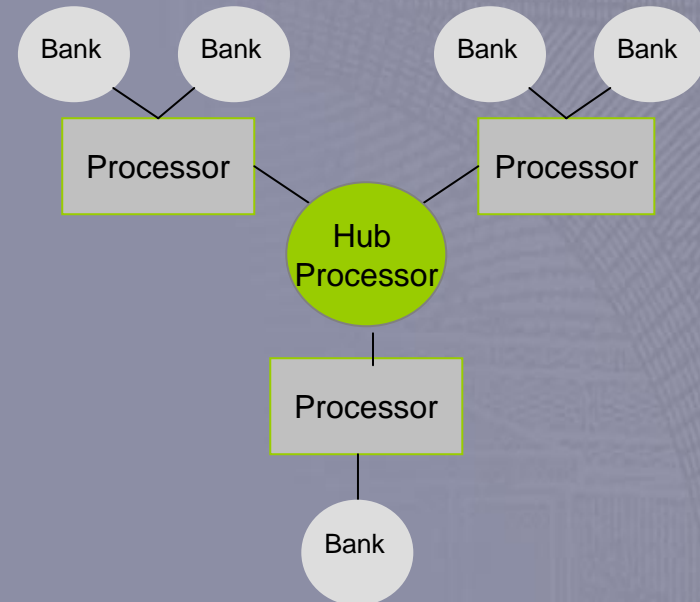
4. Options for the future

4. Options for the future

Possible operational models in the euro area



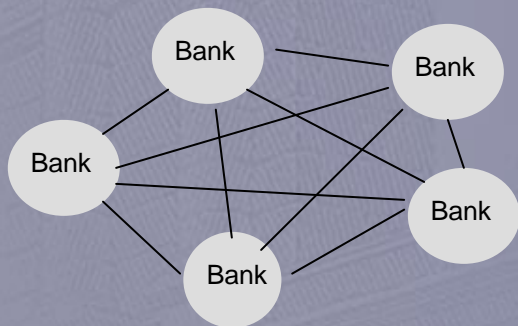
1. Distributed model



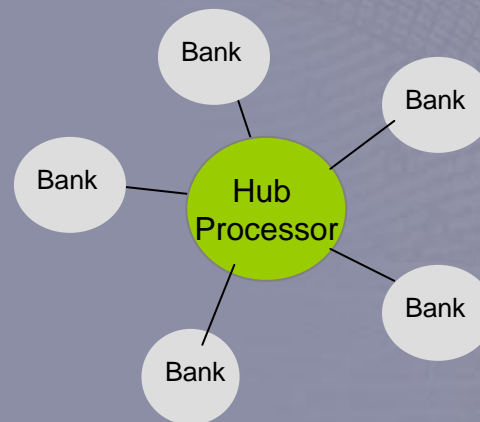
2. Hub and spoke model

4. Options for the future

Possible operational models in the euro area



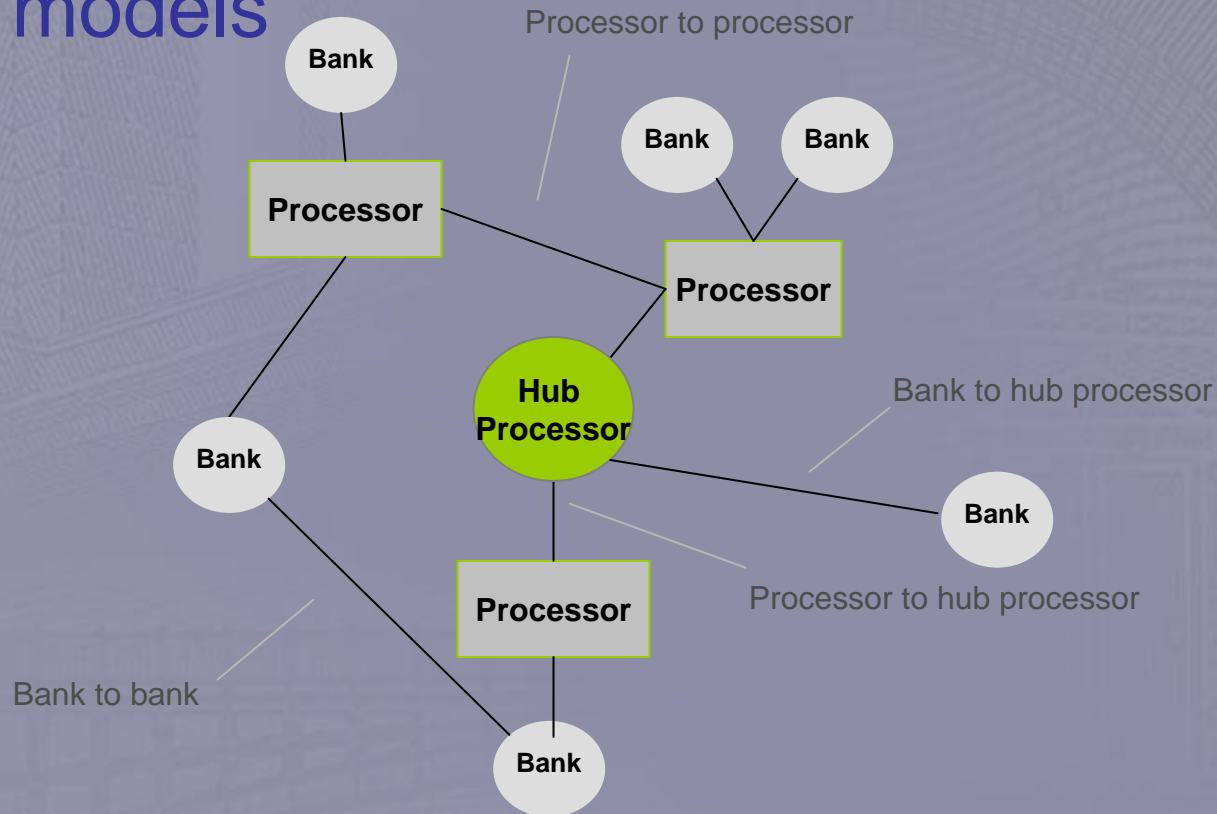
3. Bilateral links model



4. Single processor monopoly

4. Options for the future

Probable operational model in the euro area:
Hybrid approach with components of all 4 possible models



4. Options for the future

Interoperability needs to be enabled both on business level and on technical level

Business level:

1. legal framework routing
2. pricing
3. settlement
4. governance

Technical level:

1. message
2. operational rules
3. standards

Conclusion

- There is a need to streamline the retail payments infrastructure
- The ECB is confident that a market-driven move to SEPA is the best solution for European citizens
- EPC / banking communities still have a lot to do

Conclusion

Q & A

[E-mail : Francisco.Tur@ecb.int](mailto:Francisco.Tur@ecb.int)