Single Euro Payments Area
overview from a central banker’s perspective

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General introduction to European, Economic and Monetary Integration
European integration

General introduction to European, Economic and Monetary Integration:
- European Union
- Economic and Monetary Union (EMU)
- European System of Central Banks (ESCB)
- Eurosysteem
- European Central Bank (ECB)
ENLARGEMENT OF THE EUROPEAN UNION

1952
Belgium
Germany
France
Italy
Luxembourg
Netherlands

1973
Denmark
Ireland
United Kingdom

1981
Greece

1986
Spain
Portugal

1995
Austria
Finland
Sweden

2004
Czech Rep.
Estonia
Cyprus
Latvia
Lithuania
Hungary
Malta
Poland
Slovenia
Slovakia

2007
Bulgaria
Romania

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THREE STAGES TO ECONOMIC AND MONETARY UNION (EMU)

1. 1 July 1990 – Abolition of all restrictions on the movement of capital

2. 1 January 1994 – Establishment of the European Monetary Institute, the ECB’s predecessor

3. 1 January 1999 – Irrevocable fixing of conversion rates, ECB responsible for monetary policy

1 January 2002 – Introduction of euro banknotes and coins
CONVERGENCE CRITERIA

Economic and Monetary Union

Price stability

Interest rate convergence

Public finance discipline

Exchange rate stability

%
ECONOMIC AND MONETARY UNION (EMU)

- EU Member States which have adopted the euro
- EU Member States with a special status
- EU Member States with a derogation
BENEFITS OF THE EURO

Security of purchasing power

Price transparency

Country A € 13,247
Country B € 10,738

Removal of transaction costs

Elimination of exchange rate risks

% [Graph showing percentage changes from 1994 to 1997]
FINANCIAL INTEGRATION OF THE EURO AREA

Integration of financial markets, financial infrastructures and financial institutions

- results in economies of scale, larger variety of financial products at lower cost
- enhances transmission of monetary impulses
- contributes to safeguarding of financial stability and smooth operation of payment systems
# Key Characteristics of the Euro Area

<table>
<thead>
<tr>
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<th>€-15</th>
<th>EU-27</th>
<th>US</th>
<th>Japan</th>
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</thead>
<tbody>
<tr>
<td>Population (millions)</td>
<td>318.3</td>
<td>493.5</td>
<td>299.8</td>
<td>127.7</td>
</tr>
<tr>
<td>GDP (PPP, € trillions)</td>
<td>8.5</td>
<td>11.9</td>
<td>11.2</td>
<td>3.5</td>
</tr>
<tr>
<td>GDP per capita (PPP, € thousands)</td>
<td>26.6</td>
<td>24.1</td>
<td>37.3</td>
<td>27.5</td>
</tr>
<tr>
<td>Share of world GDP (PPP, %)</td>
<td>14.3</td>
<td>21.0</td>
<td>19.7</td>
<td>6.3</td>
</tr>
<tr>
<td>Exports (goods and services, % of GDP)**</td>
<td>21.6</td>
<td>13.9</td>
<td>11.0</td>
<td>16.8</td>
</tr>
</tbody>
</table>

* 2006  ** The figure for the euro area excludes Cyprus and Malta

Sources: for euro area and EU: ECB, Eurostat, national data, IMF and ECB calculations; for the United States and Japan: national sources, IMF.
BASIC TASKS OF THE EUROSYSTEM

To define and implement monetary policy

To conduct foreign exchange operations

To promote the smooth operation of payment systems

To hold and manage the official foreign reserves of the participating EU Member States
Basic Tasks of the Eurosystem (2)

To promote the smooth operation of payment systems, by

– acting as catalyst for change (SEPA)
– supervising payment services (oversight)
– acting as operator of payment services (TARGET, TARGET2, T2S)
The Single Euro Payments Area Project
SEPA Objectives

**Single Euro Payments Area (SEPA)**

- Political interventions (Regulation 2560) and political goals
- SEPA taken up by European banks as self-regulatory, market-driven project, with the European Payment Council (EPC) as the decision-making body
- Citizens, merchants and corporates will be able to make payments throughout the euro area:
  - from a single bank account,
  - using a single set of payment instruments,
  - as easily and safely as in national context today
SEPA Objectives

Ultimate objective of SEPA

By: harmonisation and integration
Via: consolidation and competition
Towards: more efficiency, economies of scale, better services and/or prices and more innovation
Retail payments in the euro area

Strong, continued growth of non-cash payments...

Payment transactions in the euro area (billions)
Source: Blue Book, Payment and Securities Settlement Systems in the European Union (ECB-website)
Deliverables: SEPA “basic”

• All banks will make the **SEPA credit transfer** available to every customer by 28 January 2008

• The **SEPA direct debit** will be made available at the latest by November 2009 (after transposition of PSD); possibly earlier use in national contexts

• Non-SEPA retail payment instruments (e.g. cheques) are dealt with at national level

• Banks could offer **Additional Optional Services (AOS)** to bring SEPA products up to current standard
Deliverables: SEPA for Cards

By 1 January 2008

• cards with European-wide reach will be available to users
• Cards with national reach only will gradually be phased out
• Banks, card schemes and operators will comply with the SEPA Cards Framework and with the Eurosystem’s report on “SEPA for Cards”

The issue

• At the end of 2010 cards limited to national use will have been phased out
Deliverables: SEPA for Cards

Is this what we aimed for when launching SEPA?

- PIN (NL)
- EC Cash (DE)
- CB (FR)
- Bancontact/MisterCash (BE)
- All other domestic schemes (euro area)
Deliverables: SEPA for Cards

- There is a risk that with the SEPA migration, national card schemes (which are generally low-cost and high-efficiency) disappear and no new scheme takes their place.

- This would leave the market with only the international card schemes.

- The Eurosystem recognises that international card schemes have certainly a place in the market. Nobody can deny that the well-established players should be there. But there is a problem if Visa and MasterCard are the only schemes.
Deliverables: SEPA for Cards

Call for an additional “European Card Scheme”:

• Card scheme covering mainly the 15 Euro area countries. Wider coverage, in particular EU27, is welcomed
• Global reach – other than by co-branding - is not considered as necessary
• Legally based in Europe, operate under EU law
• Personal data is processed in line with the data privacy requirements of the European Union
An additional European card scheme

Economic reasons:

• **competition**: an additional scheme would allow for effective competition, especially if it follows a different approach than Visa and MasterCard. For example, the new scheme could be profitable for banks but also put less emphasis on the card-brand and more on the bank-brand

• **substitution of cash**: with an attractive scheme for merchants, banks can increase card transactions and save on cash costs

⇒ **Common views of ECB and EU Commission on the issue**
An additional European card scheme (2)

**Sovereignty reasons:**

- **for the authorities:** aspects related to the financial presence of Europe, oversight of the schemes, data protection etc.

- **for banks:** how much in control of your card business would you like to be in the future? How strongly do you want your voice to be heard in international card scheme fora where decisions on standards and policies are taken? Which would be the most appropriate vehicle to achieve this?

⇒ **Common views of ECB and EU Commission on the issue.**
SEPA and infrastructures

Reachability between banks is crucial for SEPA

• Four SEPA-compliance criteria:
  – Have **processing capability** for SEPA payments (PE-ACH CSM framework)
  – Adopt **interoperability** rules and establish links with other CSMs upon request
  – Have sending and receiving capacity (**reachability**)
  – Enable **choice for banks** based on service and price (access, transparency of services and pricing)

• Eurosystenm defined ‘Terms of Reference’
SEPA
long-term expectations
Deliverables: SEPA “next steps”

With the SEPA instruments in place big opportunities emerge

eSEPA

So, the SEPA launch on 28 January 2008 is just the beginning
What is the innovative part?

Combine SEPA payments with value-added services offered to customers before and after payment

✓ Before - initiation services: e-invoicing, online payment initiation, mobile payment initiation, e-mandates etc.

✓ After - confirmation services: e-reconciliation, account statements, electronic airline tickets etc.
Next step - eSEPA

Prior value-added services
- E.g. e-invoicing
- Online Payment initiation
- Mobile Payment initiation

E - p a y m e n t i n s t r u m e n t s
- Credit transfers
- Payment cards
- Direct debits

Post value-added services
- E.g. e-reconciliation
- Online Account statements
- E-tickets on payment cards

I n i t i a t i o n - S e t t l e m e n t - C o n f i r m a t i o n
Next step - eSEPA

Market players

E-payments – include settlement
✓ Banks, Electronic Money Institutions (ELMIs) or future Payment Institutions (PSD!)

Value-added services – surrounding services / no settlement
✓ Banks, ELMIs, future Payment Institutions, mobile operators, service providers etc.
Conclusions
Conclusion

**SEPA sets the grounds**

- Integration and harmonisation of European retail payments market will foster economies of scale and enhance competition and foster innovation.
- Implementation of the Payment Services Directive will harmonise legal rules and introduce of new players.
- SEPA CT, SEPA DD and SEPA Cards are the building blocks on which innovative value-added services can be developed.
- Innovation should not introduce new fragmentation: SEPA-wide solutions are the way forward.

**SEPA launch January 2008 is just the beginning!**
Conclusion (2)

What’s in it for non-EU countries?

✔ Norway, Iceland, Liechtenstein (European Economic Area countries too) and Switzerland join SEPA as they implement all relevant EU legislation

✔ SEPA can be a source of inspiration and information for other countries and/or geographical areas, heading for further economic and financial integration and/or modernisation of their payment system