



**National Payments Conference  
Dublin Castle**

**12<sup>th</sup> December, 2006**

***“My Vision of 2012 and the Way Forward”***

**Presented by  
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Chief Executive**

**Irish Payment Services Organisation**



# What is IPSO?

The Irish Payment Services Organisation, (IPSO) is the representative, strategic and technical support body for the Irish payments industry

There are currently four payment schemes within IPSO:-

- Irish Paper Clearing Company Ltd (IPCC)
- Irish Retail Electronic Payments Clearing Company Ltd (IRECC)
- Irish Realtime Interbank Settlement Company Ltd (IRIS)
- Laser Card Services Ltd

All four operate under the umbrella of IPSO, and are responsible for their own operating rules, settlement procedures, standards and access criteria



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# IPSO Board

- Strategic decision-taking body for the industry
- Sets and promulgates strategic direction for the industry
- 14 person Board, including:
  - 9 Banking Directors
  - 4 Wholly-independent Directors, including the Chairman
  - CEO

The CBFSAI (as regulator) sits on the Board as an observer



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# IPSO Role and Function

- Provide strategic leadership and direction to the industry
- Develop best practice guidelines for the payment schemes e.g. risk management, constitution, rules etc.
- Articulate the common voice of the payments industry
- Provide central programme management for industry initiatives
- Facilitate the sharing of non-competitive industry information
- Manage pan-industry issues such as systemic risk, crisis management, etc
- Monitor and promote industry standards and facilitate system innovation



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# Key Work Programmes

- National Payments Implementation Programme
- Implementation of Single Euro Payments Area (SEPA) – delivery of Ireland's National Plan
- Communications' Strategic Action Plan
- Lobbying on legislative / regulatory issues e.g. stamp duty, Section 149 etc.
- Implementation of Competition Authority recommendations
- Cost / Benefit Analysis of Cheque Truncation / Cheque Elimination



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# NPIP Work Programme

- NPIP involves the development of a partnership approach with the non-bank stakeholder community
  - To develop a process for addressing inefficiencies inherent in the manner in which payments are made in Ireland
  - To develop a solution to the issue of the so called “unbanked”
- 3 National Working Groups established:
  - Paper based payments to electronic payments
  - Cash payments to electronic payments
  - Universal access
- These groups will provide the topics for discussion at the Breakout Sessions



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# SEPA (I)

- SEPA is largely a programme about the electronification of payments across 29 European countries
- European Payments Council (EPC) is the decision making body managing this programme across some 8,000 banks, on a voluntary basis. IPSO CEO is the Irish representative to EPC
- Key driver of payment developments over next five years
- Key developments:
  - Pan European direct debit
  - Pan European credit transfer
  - New framework for cards enabling consumers to use the same payment card in all SEPA countries that they use at home
- From 1st January 2008 SEPA payment products will start to come on stream



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# SEPA (II)

- By end of 2010, it is envisaged that the momentum created by the new products / system will be irreversible
- Fully integrated market will exist
- National payment systems will be decommissioned
- Industry can only deliver if appropriate linkages, clearing systems, settlement systems and legal structures are in place
- IPSO and member banks fully engaged in that process
- Stakeholder Forum established in Ireland
- Cost of infrastructural change estimated at €8 billion for European banks

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# Payment Behaviour

A mix of payment mechanisms in an economy is a key indicator of the economy's competitiveness

What's unique about Ireland?

- Indicators suggest Ireland is heaviest user of cash in Europe
- Cash is a major bleeder for all stakeholders
- Costing economy 1% GDP per annum
- 2<sup>nd</sup> highest cheque issuer in eurozone
- Significant percentage of population do not have a payment account
- Stamp duty / Section 149 challenges



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# Cash is King

- In Europe, 360 billion cash transactions per year
- Six out of seven payment transactions made by cash
- 1 out of 4 adults use cash only
- €50 billion cost per year for the EU15 economy
- Only about 60% of cash in circulation is actively used – hoarding phenomenon
- Cash facilitates tax evasion and money laundering
- Securing cash - substantial additional costs to society



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# No Stigma about using Cash

- No insidious anti-cash bias
- No social shame in using cash
- Not a question of conform or be shunned
- Want to see a less-cash society, not a cashless society
- Cash will retain its appeal and a has a role to play into the future for certain transactions
- No evidence that cash will be totally replaced, even in longer term
- So let's reduce our reliance on it and use cash in the most cost effective way!



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# Payment Options - Public Preferences

Why do we choose one payment instrument over another?

- Provision of rewards / incentives?
- Affinity?
- Prestige?
- Social standing?
- Familiarity / comfort with status quo?
- Inertia?
- Are we wedded to tradition?

**Market, left to itself, will not always adopt the most efficient system!**



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# What should users be asking?

If the payment instrument is used:

- Will the payment be traceable and will there be proof of payment?
- Is the method fast and convenient?
- Is it secure?
- What is the liability coverage in case something goes wrong?



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# What makes a payment system successful?

- Need a captive audience that drives critical mass
- Demonstrate an affordable cost structure relative to other payment alternatives
- Provide clear and tangible benefits that are not provided by other payment instruments
- Offer compelling incentives to consumers and merchants to change payment behaviour
- Use reliable technology that is well tested and addresses standards issues, before roll out
- Confirm system is secure, there is no credit risk and adequate safeguards against fraud



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# How do we measure success?

- Success or failure depends not just on economics but on social acceptance
- US two dollar bill!
- Return on Investment by business in a new payment system must exceed the return on other opportunities
- Any payment system, no matter how technologically sophisticated, will fail without strong customer support
- To flourish, a new payment system may require the elimination of competing alternatives
- Can we influence / encourage public preference and customer choice?



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# IPSO Vision to 2012

- In 2012, the Irish payment system will be one of the most modern and competitive among developed countries
- It will be firmly established:-
  - As a dynamic system
  - As an innovative system
  - As having a high level of stakeholder trust and confidence
  - As a major contributor to the economic and social well-being of the country
- The key changes that will have taken place:
  - Dramatic reduction in the use of cash (both volume and value)
  - Cheques will essentially have been reduced to being a “rump” or residual method of payment
- What will drive the profound change and what will be the key enablers?



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# What needs to be done? (I)

My personal vision and aspirations suggest that action is required on 3 broad fronts:

- I. Creating the enabling infrastructure
- II. Influencing the establishment of an appropriate public policy framework
- III. Delivering 'fit for purpose' payment products

Delivery will involve a partnership approach by all stakeholders to:

- Reduce their reliance on cash
- Eliminate the cheque as a payment instrument

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# What needs to be done (II)

## I Creating the Enabling Infrastructure

This work will involve concerted action up to 2012, and could include:

- Businesses setting targets for significantly reducing their use of cheques within the SEPA migration timeframe
- Possible creation of a central cheque processing utility, with paying bank truncation, to manage the rump of cheques if radical declines are achieved
- Introduction of an inter-bank realtime electronic payment scheme for internet and telephone based payments
- Continuing to foster universal access to electronic payments for Credit Unions and An Post customers
- Creation of an Electronic Bill Presentment and Payment service to banks on behalf of multiple bill providers
- Development of e-invoicing and reconciliation services



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# What needs to be done (III)

## II. Influencing the establishment of an appropriate public policy framework

Government should consider the following measures:

- Adopting a pro-efficiency alternative to stamp duty on cards, thus promoting card payments, widening the card base including the unbanked
- Reducing cheque usage significantly by individual Departments (this will include setting targets)
- Developing electronic payment services by the Department of Social Welfare (as already announced) and by PMG etc.
- Repealing Section 149 of the Consumer Credit Act to facilitate differential pricing by banks to incentivise the use of electronic payments



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# What needs to be done (IV)

## III. Delivering fit for purpose payment products

Activity here could include:

- The introduction of micro payment schemes to displace low value cash purchases through
  - Contact-less payment schemes (cards)
  - Mobile phone payments
  - Other digital payments
- Driving debit card as the preferred solution at point of sale and the promotion of cash back (to eliminate double transactions)
- Delivering SEPA compliant products on schedule to enable Ireland participate fully in SEPA and exploit the opportunities it presents



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# Concluding Remarks

- A switch to electronic payments will be to the country's real economic advantage
- No payment system can succeed unless it can attract adequate numbers of users on both sides of the payment platform
- Customer preferences are malleable
- Working together, the stakeholder community can bring about the required change in payment behaviour
- New payment products, including biometric devices, are evolving which can displace cash
- My hope is that their star is in the ascendancy and that they don't go the same way as the US 2 dollar bill

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