

Commissioner McCreevy
Opening Address
National Payments Conference 2008
"Making the best of SEPA"
Dublin, 18 April 2008

Ladies and Gentleman,

Thank you for inviting me to address you this morning on the subject of SEPA, the Single Euro Payments Area and more particularly on "how we can make the best of SEPA".

I must start with a confession. Although as Finance Minister I was familiar with payments in Ireland, I have to admit that it was only when I left Dublin to come to Brussels a couple of years ago, that I became aware of the full potential of SEPA.

SEPA is a tremendous opportunity for Europe and countries like Ireland, but SEPA remains one of the best kept secrets in the Single Market.

Benefits of SEPA

So why is SEPA so important and why does it hold so much potential?

They say that money makes the world go round but it is payments that make money go round the world.

Payments are the lifeblood of a modern economy. Without an efficient payments system it is not possible to build an efficient and properly functioning economy.

Thanks to SEPA, making electronic payments in euros throughout the whole of the EU is going to become as easy, efficient and convenient as making national payments today.

As payments professionals you know that payments are essentially a volume-related business. The integration of national payment systems through SEPA will produce substantial economies of scale thus lowering payment processing costs. It will also enhance competition by making cross-border competition for payments possible. Together, these will reduce the cost of payments to users.

Major payment users such as corporates, public authorities, retailers and SMEs should benefit from improved business efficiency and reduced operating costs linked to payments. By facilitating cross-border payment, SEPA could have a dynamic impact allowing business, especially SMEs to reap the full benefits of the internal market and promoting retail financial market integration.

Overall, SEPA will increase the competitiveness of European business and the financial sector, as well as bring about the integration of payments markets in the EU which was identified in 2000 as one of the key measures to improve Europe's competitiveness, growth and employment under the Lisbon Agenda.

And the contribution SEPA can make is substantial.

A recent study carried out by Capgemini for the Commission estimates that if we can migrate quickly to SEPA, then the potential benefits in payments markets alone are 123 billion euros over the next 6 years.

But this is not the end of the story, if we can use SEPA as a platform for e-invoicing, then the study estimates that a further 238 billion euros of savings could be achieved. In addition, SEPA could be used as a platform for e-lending and trade financing. In the public sector, SEPA could be used to drive e-Government and the development of transactional services in areas such as: e-procurement, taxation, and customs.

Ladies and Gentlemen, I hope I have convinced you that these benefits are worth striving for.

SEPA - the next steps

But, let me return to your question. How can we make these potential benefits a reality? How can we make the best of SEPA?

Clearly, SEPA is a market-driven project. So the major thrust for the initiative must come from the market at the national level together with the national SEPA coordination committees. But from the regulatory side, we too must make sure our own house is in order.

The Payments Services Directive provides the legal foundation for SEPA. To be able to develop and launch SEPA products, industry needs a sound legal platform. Member States need to implement the PSD rapidly, consistently and faithfully. I am pleased to say that we are making good progress and are working closely together with national authorities and other stakeholders through workshops and an inter-active web-site to achieve this aim.

There are many exciting developments taking place in payments market, such as mobile payments, pre-paid cards, contactless cards, and e-invoicing. Our hope is that the PSD will foster market innovation by providing a prudential framework facilitating the access of new players into payments markets.

So much for the regulatory framework. What does the market need to do to make the best of SEPA?

I see four key areas that need attention. These are: SEPA migration, cards, additional optional services and SEPA governance. Let me say a few words about each in turn.

First, SEPA migration.

As far as migration is concerned, we need a realistic timeline for the full completion of the project. By completion I mean the widespread use of SEPA products by retail customers, SMEs, corporates and the public sector.

We have got off to a fine start. Over 4000 banks adhere to the SEPA Credit Transfer Scheme and already several hundred thousand SEPA transfers are being made daily. This is significant but we still have a long way to go, before we reach our target of securing the migration of a critical mass of payment instruments by 2010.

We need to avoid a long migration period as this is particularly costly for the banking industry. The longer the transition period, the longer banks have to bear duplicate costs for operating existing legacy payment systems as well as the new SEPA systems. This will result in sub-optimal SEPA pricing.

Public authorities can play a major catalytic role in SEPA migration. Together they represent around 15-20% of all payments. Given the wider benefits to society, public administrations could and should play a major role in kick-starting migration.

However, let me be clear. We are not arguing that public authorities should blindly adopt SEPA products whatever the cost. On the contrary, early adoption of the new SEPA payment instruments must be subject to respect of the non-deterioration principle as compared to the cost and service level of existing payment instruments. We fully support the non-deterioration principle. Therefore, banks should in the first place develop attractive products and market them actively so that there is a natural momentum for customers to migrate to SEPA.

The need for a rapid and smooth SEPA migration as well as the catalytic role of public administrations subject to the non-deterioration principle is widely supported at the highest political level, as stated in the Ecofin conclusions of last 22 January.

Let me move on now to the second area - national debit card schemes.

Within SEPA, functionality will undoubtedly be expanded so that a card can in principle be used at any terminal in the euro zone. Unlike the comprehensive rule books for credit transfers and direct debits, the SEPA Cards Framework does not develop any detailed rules and standards, but rather describes three options for attaining SEPA compliance. There is a justifiable concern that under current market developments, this increased functionality is likely to come at the cost of increased market concentration and a more expensive payment card for the merchant. At the heart of this issue is our concern that cheaper national card schemes should not be replaced by more expensive payment card schemes, using SEPA as a pretext.

There is therefore a danger for debit cards that, instead of leading to more competition, SEPA leads to less.

Last December the Commission ruled against Mastercard's cross-border MIF. The decision found that the MIF inflated the costs of card acceptance by retailers, since the MIF accounts for a large share of the final price companies pay for accepting Mastercard's payment cards, without leading to proven efficiencies.

I know this decision has been received with mixed feelings by the banking industry. I have even heard some voices who say that this Decision is jeopardizing SEPA.

But, ladies and gentlemen, let me be clear on one point: the Decision did not conclude that all MIFs are illegal per se. Only that Mastercard had not demonstrated that its MIF contributed to objective efficiencies or that it benefited consumers. Of course, as regards the possible emergence of a genuine European scheme, I fully recognise that where banks are called upon to make fresh investment to create a new EU debit card player, clarity on possible business models and a possible MIF that is compatible with EU competition law is crucial.

The need for clear communication is a point that we have stressed internally. In response, the exceptional step of publishing a provisional non-confidential version of the Mastercard Decision has been taken. Together with the Competition Directorate General, we will continue our dialogue with the industry to make sure that there is sufficient clarity and legal certainty in the market.

I would also like to mention the importance of further progress on standardisation. We need open standards, so that all scenarios are possible for SEPA card migration, including widening the reach of existing domestic schemes or the emergence of new schemes.

These card standards need to be delivered on time. The Commission is carefully following the industry's work to meet the deadline of end-2008 for the delivery of minimum requirements for card standards. This will help guarantee a level playing field for all existing and new card schemes.

The third issue I wish to touch on is Additional Optional Services.

AOS will play an important role in the future European payments market and are vital for the SEPA “business case” of many institutions. Payment services will become increasingly commoditized and banks will need to develop new sources of revenue by the provision of AOS, such as e-invoicing. But, the risk is that the provision of these services may lead to new, national fragmentation and the economies of scale and the massive productivity gains that could be achieved by their development at EU level may not be attained.

To accelerate the emergence of open and interoperable electronic invoicing services across Europe, we have created an Expert Group on e-Invoicing. The Group is composed of industry experts from large and small enterprises as well as financial services providers and standardisation organisations as well as the public sector. Its mandate is to design a "European Electronic Invoicing Framework" (EEIF) by 2009.

The final issue is SEPA governance.

The Commission attaches great importance to the governance arrangements for the European payments market. If users cannot participate effectively in the SEPA governance arrangements, then it becomes doubtful whether the current and future needs of users will be adequately met on a timely basis. This is vital for a complex project such as SEPA, which involves so many different end-user groups in various countries. The creation of the stakeholders' forum by the EPC is clearly a move in the right direction, but how this user consultation is incorporated into EPC decision-making may need further reflection. The importance of proper governance arrangements has already been recognised in countries like Ireland, the Netherlands and the UK. So we will be closely following developments.

Conclusion

Ladies and Gentleman,

You, together with other payment market professionals, have already achieved much to bring SEPA from theory to practice. But more remains to be accomplished, if SEPA is to become the world-class payment system that Europe's citizens and businesses deserve. As regulators, we can only try to provide a level playing field and a proper regulatory framework for competition.

In Brussels, Ireland is often viewed as a country that knows how to make the best out of Europe. As a relatively small country on the periphery of Europe, SEPA holds tremendous potential for Irish business and consumers. It is my hope that in future years, people will look back in the same way and recognise that Ireland is a country that also knows how to make the best out of SEPA. I am sure you have the capacity, skills and determination to make this a reality.

Thank you for your attention.

ENDS

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