



**Eurofi 2008 -
Thursday 11/09/08**
**Session [5C] - EU PRIORITIES
FOR RETAIL PAYMENTS:
Political impetus for
reducing inefficient
payment means and
fostering innovation - Legal**

**smoothing of individual's migration toward SEPA direct debit
- Creating a critical mass for SEPA payment schemes**

Current e-payment landscape – Mobile payment: hype or opportunity?
E-mandate the key for an efficient use of SDD – e-invoicing: conditions
for success

The Panel

Moderator: **Leo Van Hove**, Associate Professor of Economics, Vrij
Universiteit Brussel

Panellists: **Jean-Paul Gauzès**, MEP, Committee on Economic and
Monetary Affairs, European Parliament

Jean-Michel Godeffroy, Director General, Payment
Systems and Market Infrastructure, European Central Bank
(ECB)

Jörgen Holmquist, Director General, Internal Market and
Services, European Commission

Erik Pointillard, Director of Retail Banking, Caisse
Nationale des Caisses d'Epargne(CNCE)

Irmfried Schwimann, Acting Director & Head of Antitrust,
Financial Services, DG Competition, European Commission

The Debate

The session was designed to address issues of public policy surrounding
SEPA, said **Leo Van Hove**, Associate Professor of Economics, Vrij
Universiteit Brussel, in his introduction. What could EU and national
institutions do to reduce the use of inefficient payment instruments?
What could they do to reduce the use of cash? And could the public
sector lead in creating critical mass for SEPA?

Irmfried Schwimann, Acting Director & Head of Antitrust, Financial
Services, DG Competition, European Commission, said SEPA was a self-
regulated project under which companies deemed to be in competition
would enter into a collaborative arrangement. National competition
authorities and DG Competition had identified a number of concerns, and
many had been cleared up in discussions with the European Payments
Council (EPC), but a few issues were "still on the table". These were
concerning governance, standards, and the interchange fee for direct
debits.

It was clearly essential to "optimise" stakeholder involvement in EPC
decisions, she said. The self-regulatory framework lacked monitoring,
supervision, dispute resolution and enforcement powers. Solutions were
needed. DG Competition was also concerned about the availability of
the inter-operability standards for cards – key to opening up the market
to competition. Failing that, there was a risk of migration instead to
international card schemes, which already had arrangements in place.
Direct debit remained a "hot issue", and the Commission's decision of
December 2007 with regard to MasterCard set out principles that must
apply: there must be a concrete model based on realistic assumptions,
"plausibly implemented through an objectively verifiable methodology",
while the multilateral interchange fees (MIFs) had to yield objective
efficiencies that were passed down to consumers.

Whilst there was clear consensus that the SEPA direct debit would benefit
European consumers and companies, in 70 per cent of the market direct
debits were already working without MIFs. DG Competition believed
other mechanisms would be superior to MIFs, such as a 'bounce-back'
fee for rejected payments. Companies collecting money by direct debits,
such as utilities, could reward customers by offering them rebates.
"We have not seen a proper justification for a permanent MIF on all
transactions," she said. So DG Competition had concluded there was
currently no justification for a general interchange fee for cross-border
and national SEPA direct debits. But right now, cross-border direct debits
were simply not available to European customers, and it was important
SEPA succeeded. So a temporary interbank fee for cross border direct
debits "could make sense" if based on a proper economic justification.
The EPC had been invited to make the case.

How could SEPA work at domestic level? Some countries already allowed
MIFs, but the majority did not. Creditors there were afraid they would
face a considerable price increase, which would discourage customers.
It was important to find the best mix of incentives. Banks should be
allowed to continue current arrangements during the transitional period,
so that none was worse off, but the MIF would be time-limited. The ball
was with the European banking industry, she said.

Jörgen Holmquist, Director General, Internal Market and Services,
European Commission, said he agreed heartily with Ms Schwimann,
adding that studies showed SEPA should offer "enormous" savings.
The Payments Directive had provided the legal framework, and now
his directorate was working with states and other parties to ensure
implementation of the directive was achieved in time. It was up to banks
to ensure SEPA was compatible with competition policy. It was also
important to ensure that moving existing direct debit mandates to SEPA
was neither "costly nor burdensome". And banks had to sell the service
to their customers.

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Public authorities were heavy users of payment systems. The directorate was pushing member states to use it, but the bigger member states needed to move faster. "We are continuing that work", he said. An "end-date" for a switch-over to SEPA was desirable, but some member states wanted confirmation that SEPA would be cost-effective before they would make a commitment. "Maybe it's too early still to define an end-date," he said, but "we should be moving towards it".

Jean-Michel Godeffroy, Director General, Payment Systems and Market Infrastructure, European Central Bank (ECB), said the ECB was committed to ensuring that SEPA happened "at any cost, by regulation if it's needed," but preferably by self-regulation of the banking industry. He saw no present reason to doubt that the self-regulation approach would be successful. Though this was very demanding, he was confident problems would be overcome.

Five criteria were needed for SEPA to succeed.

- 1) Non-bank stakeholders must be involved, and the banks must talk to them.
- 2) SEPA must lay the groundwork for an evolving world of payments, including e-invoicing, mobile payments, and so on.
- 3) Efficient national card schemes should be allowed to remain.
- 4) Without an end-date there would be no SEPA. Otherwise there would "always be other IT projects that were more urgent."
- 5) Finally, there must be a solution to the difficulties of the SEPA direct debit, a pioneering cross-border product.

Discussions between competition authorities and banks had been difficult. The French banking industry had threatened not to offer SEPA direct debits unless interchange fees were allowed, he said. Some big creditors – including the German government – said they would not use SEPA if there were an interchange fee. These positions were directly opposed, and difficult to reconcile.

The ECB was therefore proposing that November 2009 should not introduce a "final solution", but simply allow the SEPA product to be used, even if usage varied between countries, though ultimately there must be "one solution for Europe". An interchange fee for the innovative cross-border direct debit should be allowed, he said. Competition authorities could come up with a long-term solution later.

But there was no doubting the aversion of competition authorities everywhere in Europe – not only in Brussels – to an interchange fee for direct debits, as distinct from card payments. "This is not a SEPA issue," he said. Such fees would remain a competition issue whether SEPA was used or not.

The ECB's position was different from that of the Competition Directorate, he said, in that the ECB thought a much longer time would be needed to resolve all the regulatory issues. "We have to have a vision for the medium and long term," and that would need transitional arrangements followed by slow convergence.

Jean-Paul Gauzès, MEP, Committee on Economic and Monetary Affairs,

European Parliament, and rapporteur for the European Payments Directive, said the directive was merely a starting point. To win approval MEPs had been obliged to accept many compromises, and leave much at the discretion of member states. MEPs

had concluded that while this opened the door to progress "the devil is in the detail" and many of these had still to be settled. The critical thing was to stay on course towards an integrated payments market, but pragmatically, in partnership with consumers, traders and the banks. Payments were a commercial market, not a public service, and banks had a right to a fair profit from them, covering their ongoing investments in technology and training. The issue was of "placing the cursor" so that benefits were shared appropriately, though that could change with time.

Speaking up for the banking industry, **Erik Pointillard**, Director of Retail Banking, Caisse Nationale des Caisses d'Épargne (CNCE) said his banking group alone had 6m cardholders and handled 3bn card transactions but only two per cent of those transactions would fall within the ambit of SEPA. Currently, these were processed through VISA, and "I think VISA Europe is a solution that merits a close look," he said. SEPA was nonetheless a very important project for the bank, which was investing a great deal of money, time and staff to make it happen. "It will be an important part of our business". He believed the banks had shown a great deal of commitment, and suddenly since 4 September, he feared the dialogue had been damaged by Europe's competition authority. It was essential to renew the dialogue quickly, produce the figures, and show why a MIF, albeit time-limited, was necessary. "We are being asked to build a Channel Tunnel, and suddenly we are told that travel will be free," he said. Fares would be needed for a period to cover the investment, just as they were for roads and bridges in France. Many French bankers shared the same belief, he said. And failure to resolve the issue would have knock-on effects on other, similar projects.

The moderator, Mr Van Hove, asked the panellists whether they agreed that cash was too cheap. Mr Godeffroy said personally, he agreed, but politically, making cash more expensive would have to be balanced by lower fees for other services. Payment instruments should compete, and the consumer should choose. Ms Schwimann said the lack of

transparency on costs of all payment instruments was a problem. Mr Holmquist said he guessed cash was too cheap, but that big retailers claimed the cost of handling cash was modest. But could bankers really ask customers to pay for cash? Mr Pointillard had no doubt that cash was the most expensive way of using money, whilst Mr Gauzès said lobbyists had told him cash was cheap, whilst for individual citizens using it, cash cost nothing.

A question from the French Banking Federation asked whether MIFs for SEPA payments would really be outlawed at the end of the transition period. Was there room for negotiation with the European Commission and the ECB, or was the door "closed"? Ms Schwimann said competition law didn't function like regulation. Parties could always bring their arguments and justification for MIFs to be assessed by the competition authorities. "If you think you have a case, come and make it," she said. "We will be happy to look at that." Mr Holmquist agreed, saying that competition authorities needed proper data to assess.

Mr Godeffroy said the MIF was one of several options. "I would prefer that instead of arguing... we look and find the best solution for Europe." Then, he said, parties could work out how to migrate to the "situation of

the future". Arguments about the precise sum distracted from the issue. If the transition period was to be short, one cent more or less on the fee was of relatively little importance from the political perspective.

A questioner asked Mr Holmquist whether SEPA wasn't a programme of co-regulation, in which the industry and regulators shared responsibility. Mr Holmquist replied that it was a market driven process, but one in which the ECB must do its job too. And it was regrettable that the public sector, which represented 20 per cent of total payments, was moving very slowly. "We will turn up the heat further," he said.

A questioner from French bank Société Générale asked whether the Commission would have a different approach for card and direct debit interchange. The Commission's decision in respect of MasterCard left a lot of legal uncertainty, he said. Mr Schwimann said the Commission had been very consistent, and the underlying principles in respect of MasterCard fees and SEPA were "exactly the same". Justification was needed to allow a MIF, though different elements would have to be factored into any examination of direct debit fee structures.

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