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Thursday 11/09/08**

**Session [11C] - SEPA:
CONDITIONS FOR
ENHANCING THE USE OF
ELECTRONIC PAYMENTS
IN EUROPE**

The Panel

Moderator: **Jörgen Holmquist**, Director General DG Internal Market and Services, European Commission

Panellists: **Peter Ayliffe**, President & Chief Executive Officer, Visa Europe

Jean-Paul Gauzès, Committee on Economic and Monetary Affairs, European Parliament

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

Fabrice Denèle, Head of Interbank Relations, Caisse Nationale des Caisses d'Epargne (CNCE)

The Debate

Jörgen Holmquist, Director General DG Internal Market and Services, European Commission, introduced **Peter Ayliffe**, President & Chief Executive Officer, Visa Europe, who argued that cash was not only inefficient compared to electronic payments, but that its costs lacked transparency.

Yet when talking about transparency of different payment systems, it was crucial to have transparency on the cost of cash, he said. That was a frustration. Another was the call for a European payment system. "Europe has a European payments system," he said. "It's actually called Visa Europe." Finally, "we seem to be constantly changing the goal-posts in terms of what we want from SEPA."

Electronic payments were more efficient, giving consumers "any-time, any-place access to their funds and their credit lines," with greater speed and security than cash. Retailers also benefited from electronic payments, and could rely on card payments to attract more customers, because customers weren't limited by the amount of cash they carried. This allowed them to open up more channels, enabling sales by telephone and on-line as well as in-store. And retailers were protected from fraud and had payment guarantees. "The case that we should move to more electronic payments, and particularly card payments, is unquestionable." Consumers were increasing their use of cards.

An efficient payments system was a major strategic asset for any economy – as highlighted by the ECB. The importance of modern, pan-European payments systems was also recognised in the European Union's Lisbon agenda, he said. "We totally endorse that, and understand why the regulators and the ECB want a European-owned payments system." Visa's European members had set their faces against joining the US initial public offer of Visa Inc., so that it could remain a European owned and controlled not-for-profit organisation. The member banks had "given away" a huge amount of value by not joining the Visa Inc. IPO, he said. They had also invested heavily in European payments platforms so that European data could remain in Europe, and that should be acknowledged. "Rather than talking about putting more infrastructure down across Europe, I think what we should be doing is encouraging the banks to compete on the platform...and grow the electronic payments business as well."

A firm, commercial and viable structure was needed for electronic payments in Europe. Knowing what the level of interchange payments should be was vital to provide certainty for long-term investments.

The original SEPA goal was to establish a common consumer experience across Europe and increasing usage of electronic payments, he said. But "we seem to have taken the goal-posts away entirely...because we seem to be saying you have delivered SEPA if you do a bilateral agreement between two countries." Yet only when any card worked anywhere in Europe would SEPA goals be achieved, he said. Otherwise, a great deal of money would have been spent without achieving anything new. He "totally" supported the ECB on e-SEPA, because "we have to support increased usage of cards, and that means adding value on to those cards". Agreement on interchange fees would allow the industry to "get on" with its investments.

Jean-Paul Gauzès, Committee on Economic and Monetary Affairs, European Parliament, said the question of whether dispositions to favour any particular kind of payment mechanism had come up when he had worked on the European Payment Services Directive as rapporteur. The chosen text sought to be neutral. Cash delivery companies continued to claim that cash was the cheapest means of payment. Payment systems were treated differently from one country to another, and perceptions of what was modern varied too. In Finland, consumers were accustomed to "working with the telephone". In other countries cheques were seen as expensive, and cash as free.

Fabrice Denèle, Head of Interbank Relations, Caisse Nationale des Caisses d'Epargne (CNCE), said three pre-conditions needed to be fulfilled to seize the opportunities available to electronic payments.

First, banks had to be determined to seize all the opportunities offered by technology: including the mobile phone and the internet. Yet within the European Payments Council there was hesitancy about this. There was

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a tendency to see SEPA as the “Europeanisation” of existing national instruments. But CNCE saw SEPA as “a way to project ourselves into the future”. So the SEPA programme must include e-invoicing and m-payments. “If the EPC feels it’s not in their mandate to deal with e-invoicing and m-payments, then somebody else will have to do it”.

His second key condition for development of electronic payments was a stable regulatory environment. The Payments Directive provided that, but it was “unfortunate” that the Commission was now raising questions over interchange fees. Though the Commission was doing its job, this was a problem for SEPA and the banks. For electronic payments to develop, the banks had to settle on the best of alternative business models. “I think we can live with a lot of solutions,” he said. But the way forward must be clear, with a “relatively long” adjustment period. “Banks have to amortise their past investments before they make new ones.”

Finally, implicit subsidies for non-cash instruments must be eliminated. In France cheques were free. One day, they would have to be charged at their economic cost. Elimination of cross-subsidies could be achieved if they were balanced by concessions on other charges, he believed. But what was true for cheques in France was “all the more” true for cash, everywhere. Passing on the cost of cash to customers would be a public relations challenge.

A question was asked about whether a totally non-cash economy would ever be possible. Mr Ayliffe said that if investment in electronic payments was sustained to make them ever-more convenient, he believed that consumers would continue increasing their usage. Visa already had a contactless card, he said, which was now being rolled out across Europe. “For the first time, that is something that will displace the small-value payments” for which many consumers continued to use cash. Being able to wave a card in front of a machine, rather than having to fumble for cash, offered speed and convenience that was of “huge value” to consumers and retailers, he said. Consumers could use mobile phones to pay public transport fares in London. “The technology works.” E-SEPA was about developing existing payments infrastructure to bring new benefits to consumers. Cash usage was sure to diminish, but “there will always be people who want to use cash”.

Mr Denèle observed that in 2000 the government of Singapore had promised to phase out cash by 2008, but had been forced to abandon the plan. “It’s not easy to get rid of cash.” But even in Germany, where cash usage was much higher than in France or Scandinavia, electronic payments had gained a lot of ground. But setting aside the appeal of cash for those involved in the black economy, cash remained a convenient payment tool in Germany.

Weren’t the Commission and the ECB capitulating to national interests by “moving the goal-posts” on interchange fees, an attendee asked. Why did Europe have to have its own “champion” in the payments arena? Mr Godeffroy responded that “every global player is trying to place their champion in this competition. We feel that there must be European champions.” SEPA was also a way to ensure that efficient national solutions became European solutions. Visa and MasterCard already faced spreading competition from JCB of Japan and China UnionPay. The ECB wanted to ensure that Visa Europe wasn’t the continent’s only contender in the world electronic payments field.

Mr Ayliffe restated his plea that regulators revert to the original SEPA goals. But he believed it was important that Europe had a major payments system that could compete globally. He was happy to compete with “three, four, five, six” systems in Europe but to be competitive, European champions would need scale and efficiency. Investment in developing existing platforms would deliver benefits to consumers earlier than the same investment in rival infrastructures, he argued. “We need to focus on what we really want to achieve in Europe.” Encouraging bilateral agreements between card issuers would leave the consumer with “no idea where his card is going to work,” he said.

Mr Godeffroy said the ownership of Europeans’ data was an important issue. The ownership of Visa and MasterCard in the US had changed, and the changes were a matter of concern to the ECB. What mattered was that there was “enough” efficient competition. Europe had a tradition of inter-bank co-operation, which had its limits, but “we think Visa and MasterCard are not enough”. Europe had to be able to “drive” the evolution of card schemes. Mr Ayliffe said he endorsed Mr Godeffroy’s views, and that the member banks of Visa Europe had chose to retain it as a not-for-profit institution. “We absolutely agree that European data should be European, and that is why we have built our own authorisation platform.”

A MasterCard executive responded that European banks had approved the integration of MasterCard’s European operations into the US business, and backed that model. But MasterCard was also based in Europe and the company was also dedicated to Europe. But he also asked about the end-date for SEPA, and the standards that would go with it. Mr Godeffroy replied first that the business model of MasterCard, as a commercial company, was “OK, so long as there is lots of competition.” As regards end-dates, Mr Godeffroy said that December 2010 remained a desirable implementation date for SEPA credit transfers. “I think it is feasible.” Why not end non-SEPA transfers after that date?

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SEPA direct debits would also need an end-date, otherwise it would be “very difficult to induce people to use the direct debit and to make the investments that are needed for it.” But it would need a later deadline than 2010. The relevant directive had proved tougher to draw up than expected, and transposition still had “more than a year to go”. And the issue of the interchange fee had yet to be settled.

But there would be no single SEPA card scheme. Rather it would be a competitive forum, and it was not for regulators to dictate what services they should offer though a timetable was needed for introducing common standards. “We expect to have a debate with the Commission and the banking industry this autumn on the question of an end date,” he said.

A Visa Europe executive asked about the freedom within the Payment Services Directive for individual countries to permit surcharging. Many countries were weighing whether to allow surcharges. But did this promote efficiency?

Mr Gauzès reminded the audience that MEPs had been obliged to make compromises to achieve a Directive that would be adopted. There were about 20 measures in the Directive that fell short of total harmonisation. Mr Godeffroy said he didn’t like the idea of surcharging. He preferred discounting. If users of cash were obliged to pay more of its cost, then one day supermarket customers could be offered discounts for using cards – discounts that would vary by issuer.

Mr Holmquist said the wording of the Directive was not to allow discounting, but to empower member states to ban it. The Commission had received complaints from consumers obliged to pay surcharges when they used cards outside their home state. So the ECB would “anticipate” that EU states would ban surcharging.

An Austrian questioner said that while most Austrian banks were SEPA-ready, only a small number of payments were taking place on the SEPA platform, and the big issue was the migration of the public sector. What plans did regulators have to encourage public sector migration? Mr Holmquist acknowledged that this was a problem, and said the Commission was putting pressure on states to migrate public payments, and would seek new ways of doing so. Mr Gauzès said the European Parliament had emphasised the importance of public sector migration during its debates, because public sector payments were a significant part of the total. But some countries had “constraining” public accounting rules, and changing processes was a challenge. French public authorities had tried using payment cards, but were hidebound by public accounting rules and old habits.

Mr Godeffroy said the response had been disappointing. This only reinforced the case for a fixed end-date for SEPA introduction. Otherwise, SEPA could remain low on the IT agenda of public bodies and large corporations alike. Some public administrations were planning migration to SEPA, he said. The most important thing was that they did migrate, not when.

Making the final remarks of the session, Mr Ayliffe said the “pull” for users was as important as the push from regulators. “The big advantage now is that we can demonstrate some massive savings for the public sector,” he said. There was “an enormous market” in the public sector to help support the growth of SEPA in the future.

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