

Key Challenges and Trends for Europe's Payment Systems

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What trends and challenges face tomorrow's payment systems? This article focuses on the most important project in the European payment world - SEPA and areas of concern that need to be addressed by all stakeholders.

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Once the single euro payments area (SEPA) is a reality, citizens will be able to make payments and cash withdrawals in euros throughout the SEPA area with the same ease and convenience as in their home country. For example, once fully implemented, SEPA will make direct debit, which now only functions within national boundaries, a fact at pan-European level too.

SEPA will also bring more competition into the market, thus bringing a better service at better prices to consumers and businesses alike. SEPA is therefore a hugely important initiative. Its impact on European markets, not only on financial services markets but also on the internal market as a whole, will be enormous. That's why it is so important to get SEPA right the first time. Delivering SEPA has required a huge amount of work over the past few years and the industry has made great progress making sure that this ambitious initiative achieves its objectives.

SEPA and the Commission's Role

The European Commission, together with the European Central Bank (ECB), have been pleased to lend their support to this process. SEPA is quite unique in that it is a bottom-up self-regulatory initiative from the European banking industry, led by the European Payments Council (EPC), its co-ordinating and decision-making body.

The design and implementation of the SEPA project are therefore the result of agreements and co-operation between organisations that are usually deemed to be competitors. For this reason, the Commission and, in particular, my Directorate General for Competition has an important role in ensuring that both SEPA and the EPC deliver this project in line with the EC competition rules.

Indeed, it is only through competition that the SEPA process will be able to achieve its objectives: competitiveness of European payments systems, increased efficiency and innovation, leading to better quality payment products at better prices for European citizens.

But, for some time now, I have been concerned that some of the arrangements in the SEPA framework as proposed by the banking community may not be suitable in reaching these goals. These concerns are shared not only by the ECB, but also by all national competition authorities. SEPA will profoundly change the way payments are done in all member states and we need to ensure that these changes go in the right direction.

Migration of Cards

Our most pressing concern regards the migration of cards to the SEPA world. In particular, I do not want to see low cost national card schemes being replaced by more expensive payment card schemes, using SEPA as an excuse and a pretext for this move.

Experience shows that when national card schemes have migrated to international brands, as has happened in the UK and Austria, there has been an increase in fees charged to retailers. But guess who pays in the end: these fees were ultimately passed on to customers in the form of higher prices. But why is a switch to international card schemes so attractive for banks? On one hand, the big schemes appear attractive in a climate of persisting uncertainty about what it actually takes to become SEPA compliant. Contrary to what has been agreed for credit transfers and direct debits, the SEPA Cards Framework does not develop any detailed rules and standards for card payments.

Instead it describes three options for attaining SEPA compliance. Market participants seem to interpret these three options in a way that a card scheme is only SEPA compliant if it covers all 31 states of the SEPA territory. This, however, presently applies to only one single international scheme for debit cards and two international schemes for credit cards, all presumably well known to you.

On the other hand, the attractive multilateral interchange fees of the international schemes seem to be enough of an incentive on their own to convince banks to join the international schemes.

Clearly this interpretation of SEPA-compliance, together with the tight deadlines for migration and the incentive of generating additional income via a multilateral interchange fee, all makes migrating to one of the existing international brands very attractive. In this environment, it is very difficult for market forces to produce alternative solutions.

But, at the same time, retailers and consumers are increasingly worried that with less choice they will inevitably pay more under SEPA than now. Retailers and consumers share the Commission's concern that banks will feel compelled to migrate to the existing international schemes and abandon efficient and cheap national systems.

In that case SEPA, despite all its pro-competitive goals, will end up delivering a European monopoly or - at best - duopoly. Such a SEPA for cards would mean less competition, not more - with all the negative knock-on effects that can be expected from such a development. And this is not something I am willing to let happen.

The Commission and the ECB feel there is no need that the key element of SEPA compliance should be the coverage of all 31 SEPA states. Why shouldn't banks decide for themselves whether joining one or another card scheme represents a good business case to them?

In other words: why shouldn't market forces decide which SEPA states and how many of the SEPA states should actually be covered by a particular scheme? This obviously means that there is no need for national systems to be replaced by the existent international schemes.

Of course, we all agree that the very concept of a single euro payment area requires that cards be technically and commercially capable of being accepted everywhere. Therefore any scheme, even an efficient national scheme, should be able to become SEPA compliant, provided that it is technically and commercially capable of admitting banks from other SEPA states.

Instead of reducing competition by limiting the market to one or two established players, this would allow many - possibly national and regional - systems to develop into 'SEPA compliant' systems. That would introduce and increase competition between schemes to the benefit of consumers and merchants alike.

Obviously, it is very important that the EPC, together with other stakeholders, continues its work on technical standards. It is vital that this work be brought to a successful conclusion very soon. But the market does not only need commonly agreed standards; the market also needs clarity on the conditions of the 'SEPA compliance' concept - so that existing national schemes, which could later on grow are not abandoned now, in the ongoing migration phase. That would be a huge waste of potential.

Governance of the EPC

Another area of concern relates to the governance of the EPC. Currently only banks and banking associations can be members of the EPC. Other types of payment institutions, despite being recognised by the Payment Services Directive (PSD), are excluded.

And, as it is currently drafted, the SEPA Cards Framework seems to deny access to non-bank payment schemes. But access by new players is crucial to promote competition in the payments market. This needs to be addressed.

I am also very aware that other stakeholder groups, such as retailers and consumers, complain that they are not properly involved in the standardisation work of EPC and about a lack of transparency. Yet these are the groups that SEPA ultimately aims to benefit. I do think that it would be useful to set up an effective forum in which these views can be properly aired. And we can't exclude that these stakeholders may even come up with business models and technical proposals that are also of interest to the banking community.

Multilateral Interchange Fees (MIFs)

The issue of multilateral interchange fees (MIFs) is top of the agenda both for the Commission and for the payments industry. Due to concerns about MIF fees in four party payment card schemes, the Commission is working hard to bring proceedings on MIF in the MasterCard case to a conclusion. We want this decision to provide the industry with a solid competition analysis of the MIF as applied by MasterCard.

Of course, the assessment of MIFs can only take place in the specific market context and the compatibility of any MIF with competition law, including in a post-SEPA situation, will always need to be assessed on a case-by-case basis. But it does help the industry to see how previous cases have been assessed and why.

Turning to the idea of introducing a 'balancing fee' for direct debit payments, I know that the EPC envisages the introduction of a default ceiling interchange fee for the SEPA direct debit scheme. The introduction of such a MIF in countries with high direct debit use and currently no MIF would render direct debit more expensive - and thus less attractive - for consumers.

Even if it can be argued that a MIF for direct debit transactions might be necessary in the initial phase or during the transition to SEPA, the justification for keeping it once migration is achieved would have to be very convincing.

Conclusion

This article has included a lot about concerns and areas for caution but I would not like to give you the wrong impression. Without any doubt, SEPA is an excellent, pro-competitive project and such initiatives are to be welcomed. This is why we - the European Commission and European Central Bank - warmly support SEPA.

But as European Competition Commissioner and as a European consumer, I do think we need to be very vigilant to ensure that the benefits of SEPA are all realised, and are not inadvertently undermined through arrangements that lead to increased prices or less choice.

The integration of European financial markets is a complex process and SEPA is an important part of it. We owe it to European consumers to ensure that the process has a simple outcome - in the form of cheap, secure and efficient payment systems.

It is my belief that safeguarding and further improving the competitive elements of the SEPA process, and encouraging more competition in payments markets, will guarantee this outcome. And I am confident that all stakeholders will come together to pursue this ambitious goal.