

Introduction

Thank you for inviting me this afternoon to come and outline the focus of Commission policy for SEPA going forward.

Through its Roadmap for SEPA as well as through the multitude of activities and practical work undertaken by its many committees, the EPC is a key player, and probably the key player for the successful delivery of SEPA. Of course, there are many other parties involved and the national SEPA coordination committees have a crucial role to play in the delivery of SEPA at national level, but the work of all these parties tees-off the underlying deliverables, namely the rulebooks and scheme frameworks, developed by the EPC.

The EPC off-site meeting is therefore an important and valuable fixture every year to take to assess progress and to consider how best to move ahead. Before I outline what the Commission sees as the most important challenges ahead, I would like to congratulate the EPC and European bankers for your considerable achievements by briefly reviewing the progress made since the last off-site meeting.

Review of progress since last EPC off-site meeting

The last twelve months have been very difficult, particularly last autumn when the whole financial system came under considerable pressure. Nevertheless, despite the constraints, particularly on bank capital resources, I am pleased that banks and the EPC have maintained their commitment to the project and are pushing ahead with the delivery of SEPA.

SCT/SDD/Cards

We have seen a steady, albeit still too slow, increase in the rate of migration to the SEPA Credit Transfer (SCT) and after a difficult internal debate, the EPC Plenary has decided to go ahead with the launch of the SEPA Direct Debit (SDD) on 2 November. The Core and B2B rulebooks are in place and improvements to cater for the needs of specific communities are under consideration. On cards, we are making good progress with EMV migration but recent discussions have shown just how important and how complicated card standardisation remains.

PSD and CBP

The Commission has been carefully monitoring implementation of the Payments Services Directive by Member States. With the exception of one country (Sweden) all Member States have already transposed the PSD or are on track to do so. In a number of cases the actual date of transposition will be close to the November first deadline, so we will be closely watching the situation.

First November is also the date for entry into force of the Regulation on Cross-Border Payments. The text has been finalised and publication is imminent. The Regulation extends the principle of same pricing to direct debits which should encourage SDD migration.

SDD Business Model

The Regulation on Cross-Border Payments also establishes mandatory reachability and provides a regulatory solution to the business model issue for the short-term. However, the question about the long-term business model remains.

I understand the EPC Plenary has decided not to renew the mandate of the SDD Task Force to discuss the development of a long-term business model with our colleagues at DG Competition. Some market parties seem to favour the use of bilateral agreements, partly because the competition implications are lighter. However, I am sure such arrangements will be closely scrutinized by our colleagues in the Competition Directorate General- particularly if a given practice becomes widespread. While bilateral agreements can function well in a highly concentrated national market, I am not sure if the same holds true for a newly launched pan-European direct debit service. Therefore, I would be very interested to hear your views on how the issue of a long-term business for the SDD can be progressed without some multi-lateral framework.

Let me now move directly to what I see as four key challenges for successfully rolling out SEPA. The first is

(1) Rapid SEPA Migration by Public Authorities

Given their heavy payment volumes and the substantial benefits of SEPA to the wider economy, public authorities can and should play the role of catalyst by being early adopters of SEPA products. In the last three years we have seen increasing interest and involvement by public authorities. Whereas previously, some public authorities perceived of themselves as simple bystanders, now there is more awareness and greater commitment to the whole project. A not insignificant factor in contributing to this change has been, in my view, the fact the Commission has launched a regular survey on public authority preparedness and migration to SEPA. Our objective has been to encourage public authority migration by creating a benchmark allowing public authorities to compare their relative progress and thereby generate peer pressure facilitating the migration process.

We have published the results of our second survey end July. This shows solid progress is being achieved, particularly compared to the results of the first survey last year and for specific Member States such as Belgium, France, Slovenia and Luxembourg. However, even if good progress is being realised, it is difficult to escape the conclusion at the current time that public authorities could still do more. For example, for the reporting period March 2009, the overall SCT migration rate for public authorities was 2.3 % as compared to 2.9 % for the market as a whole. Based on this simple metric, public authorities appear to be lagging rather than leading SEPA migration.

On a more positive note, the number of Member States where an end date for SEPA migration has been established has doubled. Austria, Belgium, Cyprus, France, the Netherlands and Slovenia now all have some form of end date for SCT migration. As these end dates approach, public authority migration should increase dramatically. We will continue to monitor the situation and we are increasing the frequency of our survey now to a six-monthly basis.

However, I would like to sound one warning note. It is the danger that banks may see public authority migration along with a compulsory end-date as a simple panacea to the problem of SEPA migration. This is mistaken. Banks too must build SEPA awareness with customers generally and get out and market attractive SEPA products meeting real customer needs.

A second key challenge is

(2) Improving the Governance of the SEPA Project

The governance of SEPA is a subject of longstanding concern – not just for the Commission and the ECB but also for competition authorities. I think it important to distinguish between EPC Governance and SEPA Governance:

- ***(EPC Governance)***

Addressing the former, the Commission welcomes the improvements already made by the EPC e.g. establishment of Customer Stakeholder forums. We also welcome the planned amendments to the EPC Charter to permit the membership of Payment Institutions. This should be on a fair and non-discriminatory basis, tracking the existing approach, i.e. large Payment Institutions could be members in their own right while the membership of an industry-wide association would allow the voice of smaller players to be heard and provide a channel for proper communication between the EPC and Payment Institutions generally. Nevertheless, aside from these steps forward, we still think there remains scope to improve and professionalise the contacts with users and vendors, for example in relation to the quality, planning and availability of information available. The recently launched EPC newsletter is also a step forward.

- ***(SEPA Governance)***

Moving beyond the EPC, I think there is widespread and increasing recognition, particularly on the part of users, that some additional and over-arching governance mechanism at EU level is needed. The Commission and the ECB have given much thought to the subject and we both agree at service level on the need for say, some 'EU SEPA Council'.

The exact name of the body is less important as compared to the stature of its members and their mandate. Given the uncertain economic environment, this new body should provide a greater political steer for the project and should have top level representation from the supply and demand side. The EU SEPA Council could be co-steered by the Commission and the ECB and there would need to be proper coordination with other European institutions (the Council and the Parliament) as well as national central banks and not least, the national SEPA coordination committees.

(As Mrs. Russo has said.....) The Commission and ECB aim to establish this new body by year end. However, I would like to stress one point. This new body should complement and enhance but should not replace or displace work currently being undertaken in a variety of fora, e.g. within the EPC; the ECB/Eurosystem; the expert groups established by the Commission and of course, most important of all, by the national SEPA Coordination Committees. Given the current national specificity of payment markets, we should never forget the crucial role of national SEPA coordination committees.

The third challenge we must address is the issue of a possible end-date or should I say end-dates for SEPA migration.

(3) Possible End-date(s) for SEPA Migration

This is quite a charged subject. There are clear and strong arguments in favour of establishing an end-date: such as legal certainty, the need to avoid or reduce costs of running duplicate payment systems and to provide some finality to the whole migration process. The strength of these arguments has not been lost on Parliament. In its Resolution of 12 March, Parliament has called upon the Commission "to set a clear, appropriate and binding end-date, which should be no later than 31 December 2012".

However, these views are not universal and some users have reservations about an irrevocable commitment to a SEPA end date without more experience and information on the price/performance characteristics of the new SEPA products.

Therefore to collect the facts and arguments, the Commission launched a formal public consultation at the start of June which closed last month. The response has been phenomenal-approximately 140 replies have been received, even if we received a number of identical responses from the same category of stakeholders.

These responses reflected the mixed views I have just described. But a significant majority stressed the need for an end-date, sometimes subject to the fulfilment of some preconditions.

Views were a bit clearer regarding the form such end-date could take:

- A majority of respondents indeed considered that the end-date should be set separately for SCT and SDD migration. Indeed, both schemes do not have the same level of maturity. And one common end-date would on the contrary entail the risk to delay SCT migration.
- The end-date should moreover be set at European level, according to most of the respondents. Some flexibility should be allowed at national level to set earlier end-dates in order to take into account the specificities and degree of readiness of each market.
- A majority of respondents also indicated their preference for a regulation so as to provide a clear signal to market participants that SEPA migration was now irreversible. Some however emphasised that it would be of primary importance to associate all stakeholders in the process

We will carefully analyse the response and arguments put forward and publish a feedback statement soon. We hope this will trigger a debate among Finance Ministers so as to provide the Commission with a clear view of the degree of political acceptability of the issue. On this basis and on the basis of a fully fledged impact assessment, the Commission should then decide about the best way forward.

The final challenge or issue to which I would like to refer is the need, in the light of the difficult external climate and general uncertainty, to inject some new momentum and commitment into the SEPA project. The ECOFIN Council Conclusions of 10 February called upon the Commission, the ECB and the Eurosystem "to continue their role in identifying the necessary actions for the successful realisation" of SEPA

(4) Commission Communication on SEPA

Our response will to publish next week a formal Commission Communication on SEPA. The rump of this Communication is the SEPA Roadmap on which we consulted the market earlier. Publication of the Roadmap has been delayed pending your decision on the launch of the SDD.

The Communication has been prepared in close cooperation with the ECB and identifies a series of actions with corresponding actors and deadlines addressing six priority themes. These are to:

- (1) Foster migration;
- (2) Increase awareness and promote SEPA products;
- (3) Design a sound legal environment and ensure compliance;
- (4) Promote innovation
- (5) Achieve standardisation and interoperability; and of course,
- (6) Clarify and improve SEPA project governance

A prominent place is of course given in the SEPA Communication to the three challenges I have just described. But let me also stress innovation: SEPA, with its three main products is not an end in itself. It must remain a driver for the modernisation of the retail payment markets. An appropriate framework for m-Payments, e-payments and electronic invoicing is necessary to foster the use of modern payment devices in a global economy. The EPC is currently developing a SEPA framework for e- and m-payments. An expert group is finalising its recommendation for e-invoicing. All this should lead to some harmonisation of the use of new devices from payment initiation to recommendation in a secure environment.

Closing remarks

Let me close by thanking you for this opportunity to set out our thinking. I hope my comments will provides food for thought during your deliberations at this off-site meeting. Although COM will also be off-site, I am sure our comments will not be off-side!

SEPA was originally conceived of as a market-driven, self-regulatory project. However, time has shown an increasing need for regulators and market players to work together to give Europe an efficient, secure and high performance system for cashless payments in euro. In an increasingly integrated and competitive world our business and citizens need the high performance payment system that SEPA can provide

Let me reassure you of our strong commitment and sustained support to this joint endeavour.