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Address on SEPA

EPC Off-site, 3 September 2008

Thank you for inviting me to address you on SEPA and to participate in your discussions. For us in the European Commission, SEPA is an emerging quiet revolution which will completely transform the payments landscape and which holds so much promise to boast the efficiency, dynamism and competitiveness of our economy. Think about the positive continuous market benefits for the European economy of cheap broad band, the single currency, efficient, low cost, SEPA, financial market regulation. We will all benefit from this – perhaps most in relative terms the ordinary consumers small companies. This is a fully networked EU...

As always with important projects, there are achievements and challenges.

Significant progress has been made this year by the industry on the road to SEPA. The Commission appreciates the efforts made and the commitments.

But SEPA is still fragile. We are still far from full completion. I see three main challenges which, in my view, are all 'make or break' ones:

- The first is the development of the SEPA Direct Debit
- The second is the SEPA migration by national authorities
- The third is the debate around the so-called 'end-date'. It may sound weird to talk about the end of a process which most people would believe has hardly started, but I am afraid we will not be able to skip this debate for much longer. As the French say, "comparaison n'est pas raison" but I am sure that most of you would agree that the changeover to the euro was a success precisely because it was accompanied by a clear timeframe...

First the achievements: 2008 – the first year of progress. I would like to single out four main achievements:

- On 28 January, the **SEPA Credit Transfer (SCT)** was launched. We have moved from theory to practice, from preparation to operation. That is no small feat. Although volumes are still low, they are significant and growing.
- The basic SEPA **Direct Debit (SDD)**, rulebooks are now in place. Improvements to the core SDD have been adopted and the B2B version has been approved by the EPC Plenary. I understand that you plan to freeze the basic SDD rulebooks before 1 November 2008, so that banks have a full year in which to design and market individual SDD products before the official launch on 1 November 2009. This seems to me to make eminent good sense.

We hope that the results of the recent consultation that you have carried out on an "e-mandate" will be positive and will enable to develop an attractive solution in particular in those countries that do not have at present the same mandate flow as in the SDD.

- On **cards**, we publicly welcomed the publication of the much needed and awaited EPC Questions and Answers on the SEPA Cards Framework, which brings more clarity to what should be meant by SEPA compliance.

We do expect that card standards will be rapidly developed and implemented. We know that work is advancing on that front. It is indeed crucial to enable potential new entrants to enter successfully the card market along with incumbents.

- Last, on **governance**, we welcome the improvements that the EPC has made to its Customer Stakeholder Forum. I believe that if the EPC further improves the current operation of this Forum, notably by a better involvement of users, and improves the organization of the Card Stakeholder Forum, we will then have a solid and workable foundation for the launch of SEPA.

On our side, I am very pleased to say that we are well on-track for a full and timely implementation of the **Payment services directive** by 1 November 2009. All Member States are committed to having their transposition laws enter into force by 1 November 2009. The Commission services are keeping up the pressure for this to happen.

But, as I said in my introduction, there are **a number of challenges** still ahead of us.

1. The first one relate to **the SEPA Direct Debit:**

There are two big issues which need to be solved in order to secure a successful SDD:

- First, it is absolutely critical to ensure the **continued legal validity of existing direct debit mandates** under SEPA. Having to re-sign billions of new mandates would have enormous consequences and the costs associated to this would be unbearable. Nobody wants that to stand in the way of SEPA. We certainly do not.

I fully appreciate that this is a problem that business alone cannot solve. We have exerted strong behind the scene pressure on Member States to find a viable solution. The ECOFIN conclusions of last January are clear enough on the subject. We hope that the handful of Member States who are still hesitant to take action will soon see the light, following the example of some pragmatic Member States and the sensible suggestions of some industries and central banks.

- The second key issue for the SDD, and perhaps the most important one right now, is the **MIF** (multilateral interchange fee).

You have just heard the ECB's concrete proposals on this question. We very much welcome and fully support this proposal. We indeed think that, even if a multilateral inter-bank fee per transaction may not be a long run solution for the SDD, there is room for a temporary compromise in order to secure the rapid and successful launch of the SDD. This short transition period would pave the way for a successful migration towards the SDD in a way that can be accepted by providers and customers both in countries that have no MBP at present and in countries that have one. Proper economic/commercial justification for a transitional MIF will be essential. So the EPC should work hard here.

It will also coincide with the revision of Regulation 2560/2001 according to which the same charge will apply for domestic and cross-border direct debits. It is therefore of the utmost importance that the combination of the temporary MIF for cross-

border Direct debit and the principle of equal charges does not result in an increase in the level of national charges for users. We therefore have strong expectations that industry will not take this opportunity to make SEPA products less attractive for users. SEPA has been designed to provide better services to citizens, not as a means of levying more charges on them.

2. The second challenge ahead of us is the **SEPA migration by public authorities.**

Being heavy users of payment instruments, public authorities can make a substantial contribution to SEPA migration by being early adopters and can help provide critical mass.

A questionnaire was sent in June to collect information and data on SEPA migration by public authorities. Preliminary results show that efforts have been made to migrate to SEPA. Let's mention for instance Belgium, where tangible progress has been made by the public authorities – demonstrating that if there is a clear commitment, progress follow. But much remains to be done so as to ensure a swift and complete migration in all countries.

The Commission intends to follow very closely this migration given its importance for the overall success of SEPA. It will present before the end of the year the results of this monitoring in its SEPA progress report to the ECOFIN. We are also thinking about the possibility to publish – on a regular basis – a scoreboard of the progress achieved by Member States in order to exert peer pressure and encourage best practice by public authorities.

The Commission, as a public authority is also committed to do its part of the job. Work is progressing well in this respect: we are currently migrating our account databases to IBAN and BIC; our calls for tenders now require banks to be SEPA compliant. And we further progress will still be achieved by the end of the year so that most of the Commission's European payment instructions are in a SEPA compliant format.

3. The last challenge that I see at the moment is the debate around a **SEPA end-date.**

Having an end-date, or end-dates as the case may be, could concentrate minds and increase certainty in the migration process. It would also reduce the unnecessary expenses caused by the operation of dual payment systems. I understand this is an issue you will consider during this off site meeting.

Politically, an end-date focussing minds – 1992; single currency entry; 2005 for FSAP...

However, from our discussions with Member States we know that this is a sensitive question. Many Member States hesitate to commit themselves and tie their hands at a moment where SEPA is still on its launch pad and its benefits are still essentially paper ones calculated by visionary consultants.

I appreciate that the time is probably a little too early to define a date. That would unnecessarily antagonise people and could have an adverse impact of the very idea of an end-date. Rather, what we need right now is a proper assessment of the impact of an end-date (or the absence thereof) on the different stakeholders. I believe that the EPC is well placed to conduct such a study. We would therefore very much welcome any initiative on your side on this front. Having such data and figures would then allow us to launch a debate with all stakeholders which would lead to the political endorsement necessary to make such an end-date effective. We need a roadmap to completion.

To conclude, we and the ECB recently heard concerns that a certain SEPA fatigue might be gaining ground. I hope this is not the case. More than ever before, SEPA needs everyone's energy and commitment.

The industry has to provide convincing arguments to create a "business case" for the migration. It is indeed their primary responsibility to deliver products that can be attractive to their customers, be they consumers, corporate or public authorities. It is in particular of utmost importance to provide reassurance on the pricing of the new products and the application of the non-deterioration principle.

In parallel, the Commission and the ECB are currently assessing the merits of **a joint initiative** in order to stimulate the SEPA process. The idea – which we need to further flesh out – would be to present in a joint document a series of concrete actions (accompanied by their timetable) that we feel the various stakeholders would need to take to make SEPA happen. Even if SEPA is essentially an industry-driven and self-regulatory project, we indeed feel that it is both our role and our duty to provide the necessary political impetus and support and design the appropriate initiatives to secure and accelerate SEPA's success.

From the Commission's point of view, five **main issues** could be addressed in this initiative: SEPA 'communication and marketing'; migration (in particular by public authorities); legal and compliance issues; governance arrangements; and technical issues, such as standards. New initiatives could include roundtable meetings of key players at national level even a Forum bringing together all national SEPA Coordination Committees to discuss operational issues, solve practical problems and exchange experience and best practices.

We are mid-stream. Not an easy place to be. We all of us have to be determined to succeed. We have a major economic opportunity. I keep thinking about the use of those massive network benefits, a really competitive European market, and the EU in the lead on the payments front.

Thank you.