

ABI – SPIN 2006 – SWIFT ITALY

Factors of Change – Regulation and Competition

**Different Roles in the SEPA Project
(Single Euro Payments Area)**

Antonio Finocchiaro

Deputy Director General – Bank of Italy

Rome, 15 June 2006

This invitation to reflect on developments in the retail payment sector in Europe is an opportunity for me to share some thoughts on the relationships between the European authorities, central banks and market operators throughout the creation of the Single Euro Payments Area (SEPA). It also allows me to observe that, lately, there has been a significant increase in awareness of the project's importance for the entire European economy.

The Europe of the single market in goods, services, people and capital, the Europe of the single currency and common monetary policy, the Europe of the cross-border gross interbank payment system (which, as of next year, will be based on the Single Shared Platform): this is the Europe that in 2002 first set the target of creating a common area for retail payments, exploiting the recent progress in information technology and e-banking. The aim is to enable citizens, firms and governments to make and receive payments in euros both domestically and cross-border with the same basic conditions and rights and obligations.

When the SEPA comes into force the present differences between domestic and cross-border payments within the EU will cease to exist. Payments between EU member states belonging to the euro area will be more efficient and one will be able to make payments throughout the area from just one bank account or with just one payment card.

1. Aims of the project

The SEPA represents a further, decisive step towards the creation of a genuine single European market by overcoming the present fragmentation of widely used payment services and instruments between different national markets. The Single Euro Payment Area for retail payments will have uniform systems and rules of interoperability for transfers, collections, payment cards, and clearing and settlement facilities.

The methods that have already been in use for many years at national level in most countries will now be adopted in Europe.

In Italy, until the mid-1990s different procedures, contracts and technologies were used by the various categories of intermediaries providing payment services. Creating a single national payment system involved an exceptional effort, and succeeded thanks to the right dose of cooperation and competition and the decisive contribution of the Interbank Convention on Automation, in which the Bank of Italy and the Italian Banking Association continue to perform a role of promotion and guidance.

Creating a Single Euro Payment System is more complicated still, owing to the existence of legal, technical and commercial barriers between the countries concerned. However, it is a target we cannot afford to miss.

The development in Europe of payment systems based on shared standards, procedures and technologies can lead to economies of scale that will benefit customers, payment service providers themselves and the entire European economy.

I believe that the SEPA reflects the objectives and the spirit of the Lisbon Agenda, which re-affirms the need to make Europe more competitive and dynamic by speeding up the process of innovation and completing the single market.

2. The players and the stakes

Both private operators and public authorities are involved in the creation of the SEPA.

With the consolidation of the single market, the demand for and supply of retail payment services take on a new form. The advantage of making and receiving payments in the single currency must go hand in hand with the development of terms that reflect the best operating practices and competitive prices.

On the demand side, users – households, firms, governments – are asking for advanced services that meet their needs, have uniform operating procedures and are reliable, secure and economical. Firms in particular, engaged as they are in integrating the sales cycle more closely with payment services to optimize the management of trade credit, want shared standards for interoperability with the providers.

On the supply side, service providers and infrastructural organizations realize that the advance of procedures and technologies towards international interoperability standards broadens the market outlook and can produce optimal solutions. The current process of consolidation among banks and infrastructures calls for advanced technology in the supply of financial services, which means investment decisions to re-engineer products and processes consistently with the new scene.

Governmental authorities, together with central banks, have the responsibility for setting the common regulatory framework for retail payments; strengthening and spurring the banking industry, heightening its sensitivity to customers' needs; and fostering the migration of national systems to the pan-European system. It is their job to guarantee a level playing field in the interests of system users, service providers, and the most efficient system operators, to the benefit of the entire economy.

The watchwords for the authorities must be “accountability,” “transparency”, “no duplication” and “information exchange”. These principles pervade a number of key public documents: the Commission’s Incentive Paper, the Eurosystem’s Statement, and the ECB’s Progress Reports.

3. The development of the SEPA: regulation, promotion, cooperation, competition

The main factors that complicate the realization of the SEPA are the disparate national environments, the various interests at stake and the large number of operators and institutions involved. The clearest signals of this complexity are the forms of

linkage between intermediaries and users in the supranational context, with a view to the achievement of end-to-end payment services and straight-through digital processing.

In the past, the payment area advanced mainly through interbank cooperation. In recent years users have become much more sensitive to the problem of payments. Firms in particular have begun processes of internal rationalization and external connection that have a substantial impact on payment procedures. These are increasingly central to corporate cash management with its drive for closer integration between the sales and payment cycles.

What is required is the combined use of all the tools available to the various actors: regulation, promotion, cooperation and competition, in the proper balance.

In this perspective, the supply of payment services in Europe must be subject to common regulation that takes the needs of users fully into account. The European Commission has responded by preparing the text of a Directive on payment services, now before the Council and the European Parliament. The Eurosystem, for its part, is committed to acting as catalyst for the project by promoting the initiatives of market participants, monitoring their progress and, in the case of inaction or delay, spurring them on.

This shared viewpoint recently led the European Commission and the Eurosystem to issue a joint position statement on the project. It acknowledges the efforts made up to now but underscores the need for forward-looking solutions, opening up to the new technological opportunities and seeking to conclude the definitive

configuration of the modern payment system earlier, by the end of this decade. Accordingly, it looks with favour on the dialogue established between the European Payments Council (EPC) and final users and appreciates the commitment to cooperating for the definition of the intersectoral standards needed to make the SEPA attractive for all interested parties

Needless to say, the brunt of the effort falls on the European banking industry, to which we owe the conception of the SEPA. Though with some difficulties, the project is being developed by balancing the mechanisms for cooperation, which through self-regulation promotes the indispensable coordination of the system, with the stimulus of market competition, which selects the best practices.

This work has produced the SEPA roadmap for 2004-2010, approved by the EPC, which envisages the progressive creation of pan-European retail payment services as regards common instruments, procedures and infrastructure.

In summary, as is required by networked services, especially if their purpose is to achieve supranational interoperability, the different public and public actors must play synergic roles, the former avoiding a rigid dirigisme that mortifies market initiatives, the latter overcoming the abstract belief that competition in payment services is sufficient by itself to guarantee the public interest.

In this awareness, one must take account of the worries of financial market participants. They fear that an “excess of regulation” could make the European financial marketplace less competitive with respect to other world financial centres whose

regulatory systems are less complex and more readily adaptable to the evolution of the markets.

A minimum of regulation serving to overcome the current situation of fragmentation is the precondition for the development of a market in European financial services that can compete with the major international operators, such as payment card providers.

The initiatives of the market and the efforts of the European banking systems have an essential role to play. The authorities provide the maximum support, but they are aware that this may not be sufficient. Besides carefully monitoring the progress of the project, the authorities step in more vigorously regarding the areas where market initiatives appear inadequate or defective. Their action encompasses: the activation of effective links with the different categories of users and definition of common open standards, accessible to all payment service providers and to the support infrastructures, able to favour interoperability and effective competition; encouragement of more decisive involvement of the public sector, so as to attain the critical mass necessary for the project to succeed; and promotion of effective governance mechanisms for the migration of the domestic to the pan-European system.

Such action will surely grow more vigorous when the project implementation stage begins. It is important that it be accompanied by the participants' firm consensus on the objectives and on the steps for reaching them, so as to avoid regulatory interventions.

4. The migration to SEPA

The migration from domestic systems to the pan-European system is extremely delicate; it will be followed at national level to take account of individual countries' different starting points.

The central banks will facilitate the process.

In the first place, as noted, maximum attention must be paid to users' needs (as emerged in the national consultations), which should lead to improvements in the standard schemes of some payment instruments. It is also necessary to counter the risk of the creation of a "mini-sepa", based on common low-profile schemes, which would discourage the "migration" to a single retail payment system and relegate the use of pan-European services to cross-border transactions alone.

It is necessary to encourage government offices to use the uniform pan-European schemes from the start (2008) so as to allow the SEPA to arrive quickly at a critical mass of payments.

It is essential that the timetable laid down in the Roadmap be respected, as regards the completion of the project and the national migration plans and thus minimize the costs associated with the coexistence of domestic systems and the pan-European system.

An effective and well-timed publicity campaign must be prepared; this will be all the more necessary, the more innovative the pan-European services are. It will need to provide all the information required, both to the suppliers of services (intermediaries and infrastructures) and to clients (households, firms and government offices).

The Bank of Italy is committed to following all the stages of the project; it will carry out all its responsibilities, by calling on the experience it has gained in promoting the national payment system, in performing oversight, and in providing clearing and settlement services itself.

In preparation for the migration to the SEPA, the Italian Banking Association has promoted the establishment of a National Committee in which Confcommercio, Confesercenti, Confindustria and consumer associations will participate. The Bank of Italy will take part in the initiative as well, thus guaranteeing its constant support, monitoring and stimulus, both directly and through the Interbank Convention on Automation.