

The way forward to a Single Payment Market in the EU

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Agenda

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I. Present state of payments market integration

- **Single Market** since 1992, **single currency** since 1999, **no single payment market**
- **No domestic payments area** - Electronic payment infrastructure still reflects the situation inherited from national currencies/borders.
- **Regulation 2560/2001** had the desired effect of **kick-starting modernisation** process. However, it left banks to bear the extra costs
- **Efficiency of national payments markets** is a factor 1 to 10.
- **Efficiency of cross-border payments is substantially lower** than for national payments.

III. What are the driving forces for the EU to act?

- 1. The huge price disparity between domestic and EU markets hints at a lack of efficiency and poor functioning of the Internal Market for payments.**
- 2. The principle of equality of charges for national and cross-border payments is not fully respected and the costs for the payment system remain unchanged.**
- 3. High costs for businesses because of a lack of interoperable infrastructures and standards (EACT, Nordea, savings potential 50 bio EUR)**
- 4. Fragmentation of market access conditions for providers and legal uncertainty and market entry barriers for new innovative players**
- 5. Fair and open access and separation of scheme and infrastructure are preconditions to allow for consolidation and more competition.**
- 6. Poor market structure, lack of competition and high prices (e.g. card acquiring).**

II. Where are the problem areas?

- 1. Payments are key for the competitiveness of our economy. Total costs of payments to the economy range between 3 - 4% of GDP and need to be substantially reduced.**
- 2. A shift to electronic payments* (example: Nordic countries) can halve average cost of producing payments over a period of ten years and has a positive impact on consumption and GDP.**
- 3. Efficiency in Member States should be at par with the best performing system, e.g. percentage of electronic payments, execution time and cost of payment processing.**
- 4. Cross-border infrastructures need to be developed and build on a convincing business case to attract critical mass.**
- 5. Standards are needed to ensure EU-STP, cost reductions, more competition and customer convenience.**
- 6. Infrastructure consolidation progresses needs to be accelerated, efficiency gains through enormous economies of the Single Market need to be exploited**

IV. Who is doing what to modernise the payment system?

- **Role of the industry**

Develop pan-European payment schemes, infrastructure requirements and standards. Ensure business case and timely implementation in a competitive environment by 2008 and full deployment by 2010.

- **Role of the Eurosystem**

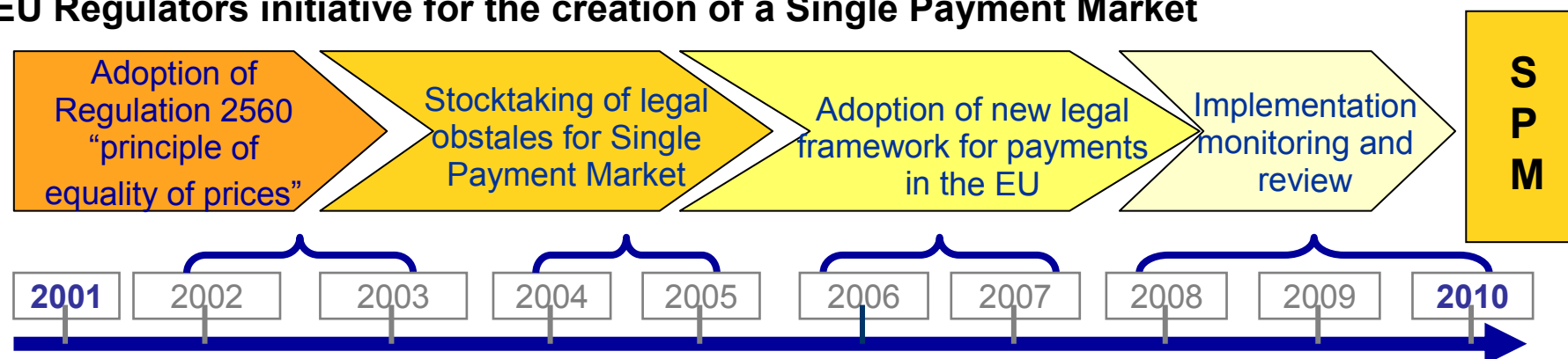
Promote the smooth operation of payment systems, maintain public confidence in payment systems and instruments and the euro currency.

- **Role of the EU Regulator**

Provide legal framework for an integrated and modern payment market, remove obstacles for the development of pan-European payment services and infrastructures.

IV.1 Development of a new legal framework for payments in the Internal Market

EU Regulators initiative for the creation of a Single Payment Market



The Commission proposal will provide the legal framework for an integrated and modern payment market!

V. The objectives and impact of a new legal framework for payments in the EU

1. Regulatory pillar:

**Define minimum rights and obligations of users and providers,
Define benchmark for efficiency by specifying the main characteristics of payment services in the Internal Market,
Remove legal obstacles and market entry barriers, so that any provider can offer payment services on an efficient basis in the Internal Market.**

2. Monitoring pillar:

The new Payments Committee will ensure consistent implementation, monitor interface of regulatory and industry action and progress on Single Payment Market.

3. Review pillar:

Comprehensive review will ensure that objectives are reached and will consider further action if regulation or self-regulation should fail to deliver.

New prudential regulation of payment service providers

- Level playing field for payment service providers
- 3 types of providers: credit institutions*, e-money institutions**, payment institutions (new!)
- New license for payment institutions:
 - Defines initial and ongoing prudential requirements for the taking up of business
 - Defines payment services that can be provided by payment institutions (post-paid payment services, money remittance, issuing and acquiring services, mobile and micro payments)

Regulation of payment service providers

Low level of risk

High level of risk

Directive
1987/102
/EEC

- Accept pre-payment from customers
- grant credit to customers

Companies &
credit
intermediaries

NEW Payment
Services Directive

- Money transmission services
- Issuing and acquiring of payment cards
- Post-paid payment services (credit transfer, direct debit, deferred debit)
- Premium rate services (Telcos)
- Post-paid micro payment services

Payment
institutions

Directive
2000/46/EC

- Issuing of electronic money but excluding the granting of any form of credit
- Provision of closely related financial and non-financial services

eMoney
institutions

Directive
2000/12/EC

- Acceptance of deposits and other repayable funds
- Lending
- Trading for own account or for account of customers
- Issuing and administering means of payment
- Money transmission service
- ... ect.

Credit
institutions
(banks)

Regulation of payment services

1. Transparency requirements:
 - Full harmonisation of information requirements relating to the payment service contract between a provider and a user of payment services
2. Execution of payment transactions:
 - Full harmonisation of rules relating to the execution of a payment transaction (e.g. revocability of payment orders, cancellation of payment transactions, execution for the full amount, execution time, availability of funds)

Regulation of payment services

3. Rights, obligations and liabilities of parties:

- Full harmonisation of the basic rights and obligations of a payment service provider and a user with regard to the authorisation and execution of payment transactions

VI. Where should we be by 2010?

- **Milestones and deadlines fixed by industry for the delivery of SEPA should be respected.**
- **Standard payment services should be available, interoperable, cheap, efficient, and reliable without difference between national and cross-border.**
- **Execution time of cross-border payments should be further reduced to one day to be at par with best national payment system.**
- **Interoperability & usability of payment systems to ensure that each card works on all terminals.**
- **The policy of separating the scheme from infrastructure should effectively be implemented.**
- **The access to clearing and settlement systems should be non-discriminatory.**

VII. Outlook: Next steps and timetable

- End April 2005: European Commission will publish “incentives paper”
- May 2005: Consultation and meeting with government experts (10 May) and market experts (13 May)
- May 2005: Commission will decide including “incentives” in draft proposal
- Beginning June 2005: Consultation and meeting with government experts (3 June) and market experts (7 June)
- June 2005: Commission will prepare the final proposal and impact assessment which will then be discussed inside the Commission and adopted by the colleague by September 2005

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Thank you for your attention!
Your questions are highly welcome!

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