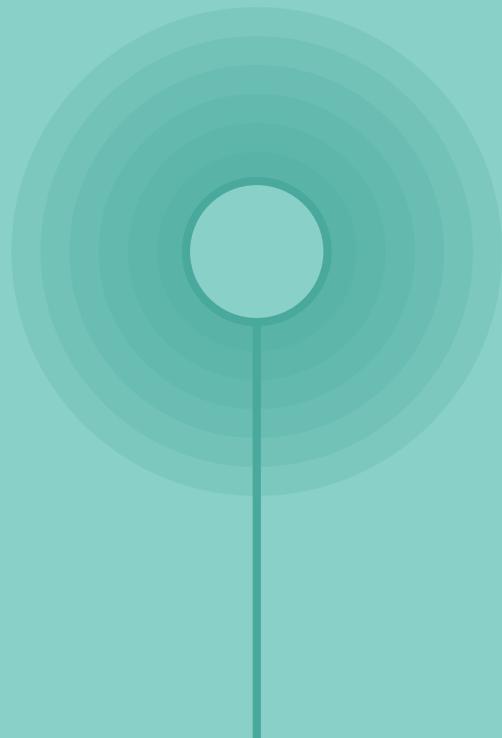




# *Innovation in European retail payments*



**Retail payment providers in Europe are responding to growing consumer and commercial pressure to deliver faster payment and offer more than the efficient transfer of value. Yves Mersch, a member of the Executive Board of the European Central Bank (ECB), welcomes these developments and explains what European regulators are doing to ensure the payment providers and services that emerge are safe and efficient, as well as fast and innovative.**

In the fast-moving world of today, innovation in retail payments is crucial to keep pace with the changing needs of customers. However, new technology and tools must not be implemented rashly or without ensuring adequate safety. After all, the first priority for payment services is that they are safe, secure and reliable.

Much recent innovation has been driven by digitalization. This phenomenon has had a huge impact on almost every area of life. Alongside the many advantages, it has also presented a number of challenges. It has called into question many traditional business models that, until recently, were hugely successful.

One only needs to look at the music industry for one of the most striking examples. With online streaming and

the sharing of music files over the Internet, it has become clear that record companies cannot simply add the Internet as an additional distribution channel for their products – they need to completely re-think their business models.

As more and more people turn to digital streaming services like Spotify, sales of CDs are plummeting; artists and record companies will only survive this shift in consumer behaviour if they embrace it and adapt to it, rather than fight against the technology.

## **Consumer expectations driving innovation in retail payments**

The retail payments industry now faces a similar choice. Whether it will undergo



a transformation as deep and as quick as the one in the music industry remains to be seen, but it is clear that user expectations have changed.

Consumers are now asking themselves why, in this day and age, it still takes so long for an e-payment to be processed, while an e-mail can be sent to the other side of the world in a split second. Demand for instant payments is increasing and the time is ripe for innovators to come up with solutions to meet this demand.

Of course, just as there are people who still prefer to buy a newspaper than read the news online, there will always be those who want to pay by cash or use the more “traditional” cashless payment methods. We are therefore no closer to becoming a completely cashless society than we are to having completely paperless offices, but what is important here is choice. Users should be able to pay in the way that suits them best at any given moment in time.

In order to provide that choice, the discussion must no longer be about if or when to implement instant payment solutions, but how. At its June meeting, the Euro Retail Payments Board (ERPB) – a multi-stakeholder group fostering an

integrated, innovative and competitive market for retail payments in euros in the European Union – agreed that, regardless of the payment instrument on which they are based, instant payment solutions should be developed at the pan-European level.

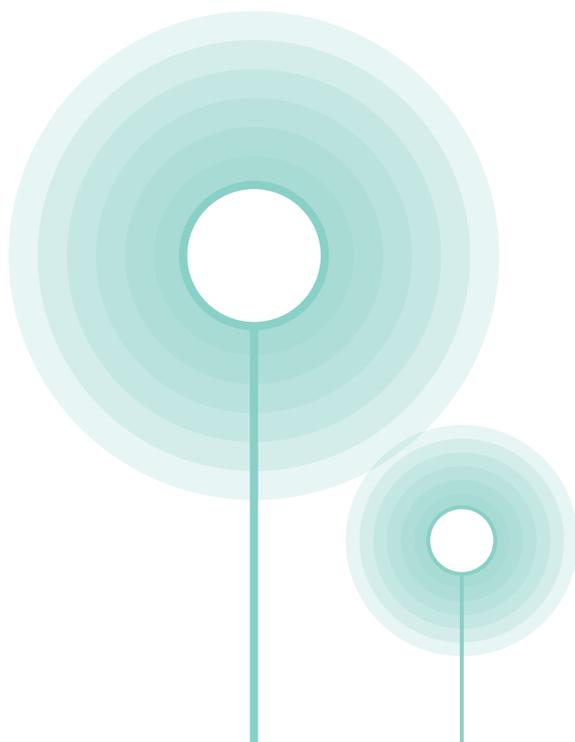
If a pan-European solution cannot be developed, and solutions are developed at the national level instead, these should at least be inter-operable with other solutions based on the same payment instrument. The ERPB has invited the European Payments Council (EPC) to develop a proposal for the design of an instant payment solution, based on the Single Euro Payments Area (SEPA) credit transfer scheme, to be presented by November 2015.

### **An integrated retail payments market in Europe is a priority**

The SEPA project has laid the foundations for an integrated retail payments market in Europe. The goal of the project is to make the national borders within the European Union invisible when it comes to cross-border payments. Thanks to this project, Europe now has SEPA credit transfers and direct debits, two tools which

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make it possible for consumers to send and receive payments anywhere in Europe under the same conditions and at the same cost as a domestic transaction. The SEPA project and the harmonization it has achieved therefore provide a solid basis on which to now build a pan-European instant payment solution.

However, SEPA has also shown that harmonization can be quite time-consuming, which is why, given the speed with which innovation can move forward, we in Europe now need to act as quickly as possible. Indeed, some national communities have already begun to develop their own instant payment methods, while others are undecided as to whether to wait for a pan-European solution or to start developing their own. Time is of the essence and we will need to work together to get a pan-European solution off the ground.

### **The competition for market share**

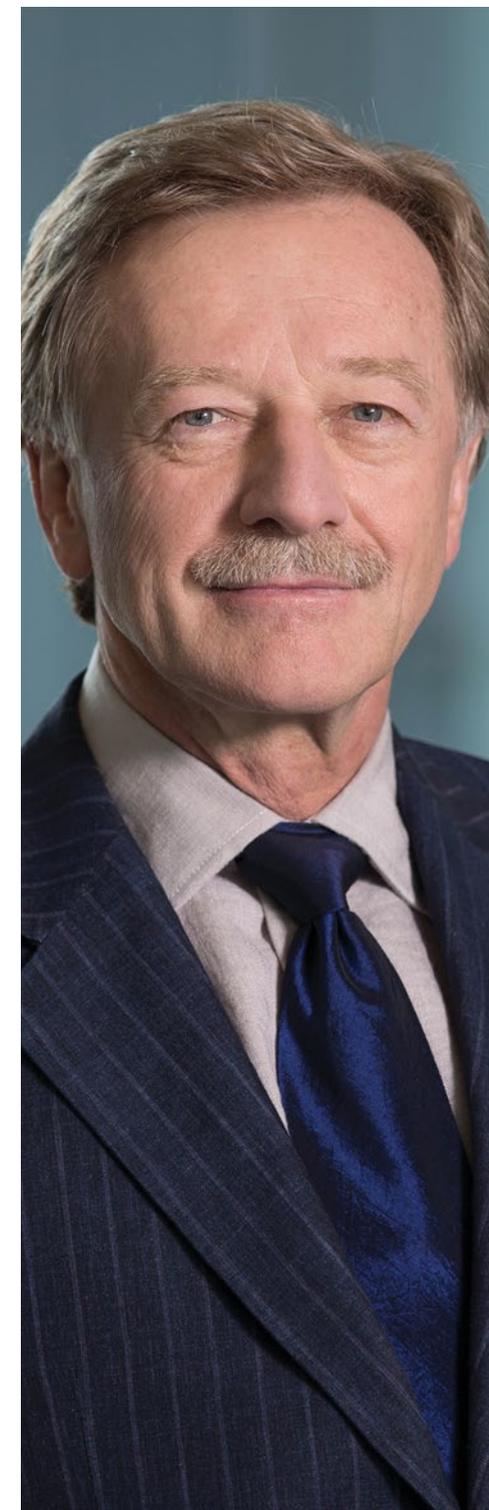
As a result of the digitalization of information, communication and commerce, payments – in particular remote payments – have become part of increasingly long and complex value

chains. Users want these value chains to seamlessly integrate e-commerce, social media and retail payments.

For example, in on-line stores, it has become increasingly common to buy and pay with one click, rather than having to transfer from the merchant website to Internet banking websites, where passwords, secure codes and personal data all have to be entered separately. Some of the biggest e-commerce players have developed their own payment services, threatening to take this traditional banking service away from the banks.

The market pie for retail payments has not yet been sliced up and shared out – even if a few players have taken a first bite. Just as players in the music industry have had to re-think their business models to get a share of the new digital market, retail payment providers must likewise re-think their business models to embrace this new environment. Simply adding on a few Internet services as an after-thought will not be enough.

While a few non-banks have already taken some pioneering steps forward in this domain, the comparative advantage of banks means that they are in a





strong position to take full advantage of this market opportunity. Banks tend to have well-developed data and operational security systems and enjoy the confidence of their customers. This is crucial if instant payments are to be a success and not just an experiment.

### **In retail payments regulators seek openness as well as safety**

The role of regulators and central banks in this field has not changed all that much. They are still responsible for maintaining confidence in payment systems by ensuring safety and efficiency. However, the emergence of new payment services and providers means that regulators must ensure a level playing field for both newcomers and long-established players. Moreover, while Europe seeks to develop pan-European solutions, global service providers are focusing on global solutions, which adds an additional dimension to the challenge.

In its capacity as an operator of a market infrastructure, the Eurosystem needs to adapt and upgrade security measures, in particular in the field of cyber-resilience. Moreover, the Eurosystem must study how best to support innovative and competitive retail payment solutions

- for example, through the provision of settlement services, and possibly also through the facilitation of clearing activities for instant payments.

The emergence of virtual currencies and the use of distributed ledger technology, which allows for the implementation of decentralized payment mechanisms, has attracted considerable public attention. The Eurosystem monitors those innovations in terms of their possible impact on monetary policy, financial stability and the provision of Eurosystem market infrastructure.

These are just some of the challenges presented by the structural changes in the retail payments industry resulting from digitalization. In the coming months and years, Europe will seek to build new, innovative solutions in response to this new environment. But if we want to make them a success we need to ensure they are safe and secure, without sacrificing comfort and user-friendliness. Striking this balance is the goal.

**“In conversation with Yves Mersch, European Central Bank” at Sibos**

Tuesday 13 October 2015  
14:30-15:30 p.m.  
Conference room 4



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