



EUROPEAN PAYMENTS COUNCIL
Towards our Single Payment Area



EU LIAISON OFFICE
Kanselarijstraat 17A
B- 1000 Brussels
Contact: Lie Junius
Tel: +32 2 546 03 71
lie.junius@be.abnamro.com

EPFSF SPEECH

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“Payment Services Directive as a step toward SEPA”

Gerard Hartsink, Senior Executive Vice President ABNAMRO &
Chair European Payment Council

Chairman, Members of Parliament, representatives of the
European Commission, colleagues,

Thank you for the opportunity to share some thoughts today on
payments services, one of the key components of our
business. As chair of the European Payments Council, the
platform mandated by European banks to support the
realization of the Single Euro Payments Area, I would like to
give our view on the current developments in the payments
area. A view which is shared by my own bank, ABN AMRO.

I will address four points in my speech.

First I want to give you an update on the current status of the
payment industry’s efforts to create SEPA.

Second, I will address the involvement of other stakeholders in
this important programme.

As a third point I touch upon EPC’s view on the proposed
Payment Services Directive and,

finally I will look at the next steps going forward.

I. Current status

Over the last few years a tremendous effort was made by the industry to meet the expectations of the users and of public

authorities such as the European Central Bank, the European Commission and the European Parliament to realise a Single Euro Payments Area for all of us. This means that citizens and enterprises should be able to use

new payment instruments for the whole Euro area so also for their national payments.

The industry committed itself based on the feedback of banks and their national communities, to implement the deliverables of the EPC Roadmap 2004-2010 at the latest from January 2008. In 2005 this resulted in two SEPA Scheme Rule Books for direct debits and for credit transfer as well as in a SEPA Cards framework all for Euro payments. The EPC also delivered a Single Euro Cash Framework.

From 2008, a vast majority of banks will offer new, competitive SEPA products: those are SEPA credit transfers, SEPA direct debits and SEPA compliant cards for euro payments. These products are designed to be as safe and efficient as the national products today.

We are convinced that by 2010, a critical mass of transactions will have been migrated to these payments instruments such that the creation of SEPA will be irreversible through the operation of market forces and network effects.

II. Stakeholder's involvement

SEPA will be delivered by the banking industry in close conjunction with all stakeholder communities being it consumers, SMEs, merchants, corporates and government bodies.

This was also recognized by the ECB and the Eurosystem which have taken several initiatives to stimulate a dialogue of the EPC with representatives of these stakeholders. An example of this close cooperation is the consultation of the EPC on the views of the European Association of Corporate Treasurers on the two SEPA Rulebooks. This resulted recently in an agreement on the January 2008 deliverables as well as in a cooperation framework to ensure that expectations and requirements are well aligned to one another also for the next steps.

Also acceptance by individual consumers as well as sme's and merchants of the new SEPA products is key. The EPC, our members and the ECB and NCB's have organized several meetings to get their views. In those meetings expectations of all stakeholders were clarified.

III. Payment Services Directive

This brings me to my third point I wanted to touch upon: the Payment Services Directive. Why is the PSD important for us? The answer is straightforward: the harmonization of the legal framework is an essential building block for the self regulatory work of the industry to realise SEPA.

The Commission engaged in a thorough and extensive consultation process prior to the publication of the PSD, which resulted in a number of improvements.

However, we still have a number of important concerns. We especially want to plead for consistency with what is agreed in the EPC Rulebooks to roll out new SEPA products from January 2008. But I will also mention some of our more general concerns.

a) **Firstly**, I will share with you some concerns with regard to the inconsistencies of the PSD with the SEPA rulebooks :

For instance, the **refund rules**.

- In order to allow the SEPA Direct Debit Scheme to operate, the refund of an authorized payments transaction needs to be linked to the **debit date** with a limit of a maximum of 6 weeks. In the PSD, no clear and unambiguous start of the refund period is defined. We plead therefore for clarity in line with the Direct Debit Scheme.

- For unauthorised transactions we similarly need legal certainty for creditors and we plead for a harmonized period of refund rights of maximum one year.

Another example, is the concern we have with regard to **IBAN**. IBAN is the acronym of International Bank Account Number. To allow the SEPA schemes to operate, the industry needs a European rule of the primacy of the IBAN over the name of the user to allow efficient (STP) processing (so without manual intervention).

b) **Secondly** I move now towards more **general concerns** on the PSD.

b.1 We see some **challenges** in the current proposal regarding the **feasibility of application of the PSD**. I will give you the most important examples:

Geographical scope:

The proposal covers not only payments transactions between payers and payees done in the EU, but also transactions with “one-leg-out of the EU” meaning that one of the two and their respective Payment Service Provider is not based in the EU.

This PSD makes that banks in the EU are liable for the execution of a payment to a non-EU payment service provider

up to the receiving payee. We think that this poses an excessive liability and an excessive level of risk upon EU payment service providers when executing payments with one-leg out of the EU.

We think also that the PSD should focus on the realization of SEPA and not to extend the scope to force a redefinition of international accepted practices.

We are therefore of the opinion that the scope should be limited to payments with two legs within the European Union.

Execution times

The payment industry is concerned about the requirement of complying with one day maximum execution time (D+1) from 2010 for **every** transaction in **any** currency.

Only if all banks are directly connected to a same Clearing and Settlement Platform for such a currency, this objective to execute payments in one day might be realized, provided that all banks are committed for such considerable investment.

Moreover the EACT made clear that not all payments should be executed in one day. They informed the ECB that they ask for transparent payment services for their bulk payments and only for some of their payments a one day execution.

We believe that execution should be a variable of competition.

b.2 Let me move on to our **concerns** with regard to the need to create a **level playing field** in the proposed Directive

Payment Institutions

In the Directive a difference is made between **requirements for the licensing** of financial institutions and those for payments institutions without a bank license. The Commission wants to increase competition in payments by introducing a new category of non-bank payments providers, so called payment institutions.

We are in favor of genuine competition but we insist on the need for the creation of a level playing field for the licensing of payment service providers especially with regard to prudential requirements which are necessary to safeguard financial stability, consumer confidence and consumer protection.

From a risk perspective one should note that providers of payments services are faced with a number of risks such as credit risks, market inclusive liquidity risks and operational risks. A lighter regulatory regime for those payment institutions can pose also threats in creating divergence in compliance with anti money laundering rules and anti terrorist rules. The EPC believes that it is necessary to lay down a coherent prudential regime for payment institutions and developed in conjunction with the Eurosystem which defines clearly their powers and activities.

In our opinion the regulatory regime in particular for handling risks arising from payment operations should be similar, adequate as well as proportionate between payment institutions and credit institutions.

b. 3 Balance between providers and users

Apart from our call for a level playing field we would like to see a Directive adopted which creates a balance between providers and users especially with regard to liability provisions and information requirements

Liability provisions

The PSD proposes a **strict liability** clause of the payment provider vis-a-vis the user which, in our opinion, is not balanced with the limited liability of the user. The EPC would like to see a more balanced approach in this respect for the different categories of users.

Information requirements

Some of the information requirements in the PSD are in our opinion excessive and not proportionate to the user needs. We plead for a practical approach towards those requirements to ensure a timely and efficient roll-out of SEPA.

b.4 Gold Plating

As a final comment on PSD we would call for a true harmonization which limits the use by Member States of gold plating. In the current text 33 articles allow for additional national rules. Consistency in implementation is key to achieve a harmonized legal framework for a Single Euro Payments Area.

IV. Going forward

The EPC cooperation model is based on a model where national communities are taking care of the implementation and the EPC for the design of the business rules and standards for the new SEPA payment instruments.

Contrary to some concerns expressed in the media, I am convinced that we have a very constructive and positive story to tell to all the users. Not only did we achieve already concrete deliverables but also more is in the pipeline for

approval by the EPC plenary. SEPA is not a static but a dynamic programme in which banks will always aim to improve the offer towards their customers. The future cooperation with other stakeholders is also crucial in this respect.

In this light allow me to briefly touch upon the Commission's consultation on the incentive paper. We think that **positive** incentives are important and necessary to support the realization of SEPA. Incentives to take care that public administrators are among the first users of the SEPA payment services from the January 2008 deliverables are welcomed. This was also the message of the ECB's SEPA progress report released yesterday. However we need stability in the requirements on the road to January 2008 as well as the need for a truly harmonised legal basis.

To conclude I want to share a final thought. Yesterday I was watching great performances in the Olympic winter games. Athletes who worked for several years towards this moment deliver at their best. The banking industry is also in the middle of the preparation for a high performance delivery. A strong focus, stability on the requirements and strong support of public authorities are key to make sure that the gold medal can be won.

SEPA can only be realised if all stakeholders are committed to implement the SEPA deliverables from January 2008.