The regulatory framework for payments in Europe

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The EU: still a fragmented market!!!!
“The legend of Sir Leon Brittan’s book”

The story is that Sir Leon Brittan as an EU trade Commissioner in the early 90’s, ordered a book costing around £10 but the charges came to £20

Alternative theory: bureaucrats fed-up paying bank charges when moving money back and forth from Brussels
...but the real catalyst for change:

- Regulation 2560/2001 on cross-border payments in euro brings obligation to apply same price for cross-border and national transfers in the EU since 2002
.....a single currency but still a fragmented market

Regulation 2560/2001 had kick-starting effect
But it left banks to bear the extra costs

Some national payments are quite efficient
But huge differences between countries of a factor 1 to 8

Efficiency of cross-border payments is substantially lower
But should be at par with the best performing national markets

Well-functioning national markets exist
But remain fragmented
SEPA = Single Euro Payments Area =

An area where it is as easy, convenient, safe and efficient to make payments within or between national borders in Europe
SEPA in facts and figures:

- A private initiative supported by EU institutions and governments
- For Euro payments
- In 27+4 countries
- Will be offering SEPA instruments from 2008
- Expects to reach critical mass by 2010
EPC’s SEPA Timeline

**Design & preparation**
- **Design**
- **Specification**

**Implementation & deployment**
- **Implementation**
- **Pilots**
- **Launch**
- **Early adopters**
- **National migration**

**Programme activities**
- Programme management, planning, communication, monitoring

**Milestones**
1. 2008 EPC instruments available to citizens
2. 2010 Critical mass migrated so SEPA is irreversible

- Creation of a new category of financial institutions: payment institutions, with specific regulatory framework
- Comprehensive transparency requirements in order to enhance consumer protection
- Level playing field for all payment systems to maintain consumer choice
- Framework defining rights and obligations for the different parties, underpinning the SEPA project
The pre-legislative and the legislative process of the Payment Services Directive:

- 5 years to consult stakeholders and MS
- A bit more of 1 year of negotiation between Council and Parliament
- 2 years of transposition by MS
Several layers in the process........
A multiplicity of actors...
The PSD: an interesting case-study

- Unprecedented scope and scale
- “Start from scratch”
- Momentum and support by the industry
- Legislate for the future payment instruments
Protection of users
Competitive EU market

**Pillar I**
Authorization and supervision regime for PI
- Authorization regime
- Supervisory regime
- Safeguarding measures for users
- Granting fair access of PI to payment systems

**Pillar II**
Transparency requirements applicable to all PSPs
- Pricing
- Applicable conditions

**Pillar III**
Rights and obligations of PSU and PSPs in a payment transaction
- Rules for unauthorized payment transactions
- Rules on irrevocability
- Rules on refunds
- Rules on execution time
- Rules on defective execution
Main drivers for PSD:

- Increase competition
- Increase transparency
- Reinforce consumer protection
- Promote automation and STP
- Promote innovative and safe payment instruments
Regulatory choices:

Pillar I
Authorization and supervision regime for PI
- Authorization regime
- Supervisory regime
- Safeguarding measures for users
- Granting fair access of PI to payment systems

Qualitative/quantitative
More/less burdensome
Higher/lower barriers to entry
Scope of authorized activities
Maximum/minimum harmonization
Degree of interference with some payment systems’ rules
Regulatory choices:

- Pillar II
- Transparency
- Charges
- Other contractual terms
- Value dates
- Derogations for new payment methods

More/less information
- free of charge or not
- Make available/provide
- Support: paper or other?
- No hidden tariffs
- Maximum/minimum harmonization
- Which derogations can be justified
Regulatory choices:

Pillar III
Rights and obligations of the parties
- unauthorized payment transactions
- irrevocability
- refunds
- execution time
- defective or non execution
- Derogations for new payment methods

Degree of sharing of cost between users/PSPs
Level of service
More / less users' protection
Which derogations can be justified
At the end...

- More competition
- More efficiency
- More transparency
- More consumer protection
- More automation, STP, innovative products
- Level playing field
- EU integrated market
What’s next?...

Fully-functioning EU payments market will still require as next steps:

- Transposition of legislation
- Implementation by the industry
- Critical mass.....

The Portuguese Presidency of the EU in the second semester of 2007 is supporting SEPA becoming a reality
Learning from Ms Pereira’ presentation

What lesson can we get from SEPA for domestic regulation?

- Need for a modern and coherent legal framework for payment services
- Reliability and stability
- Level playing field
- Transparency and consumer protection
- **A step further: link with regulation of capital markets and forex**
Learning from Ms Pereira’s presentation

**What lesson can we get from SEPA for regional coordination?**

- Coordination of national provisions on prudential requirements
- .. On access of new payment service providers
- .. On information requirements
- .. On respective rights and obligations of payment services users and providers
- This also without the precondition of a common currency