

Milestones on the road to a European single market for financial services

The key SEPA project is close to implementation – now is the time to press ahead with integrating the retail banking markets

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Press breakfast
Brussels, 14 September 2005

Good morning ladies and gentlemen.

Welcome to our press breakfast in Brussels.

European legislation is extremely important for the financial services industry. Regulators and industry share a common goal – a single market for financial services. To achieve this, the Financial Services Action Plan (FSAP) was launched in 1999. Most of its 42 envisaged measures have now been successfully implemented. Nevertheless, further efforts are indispensable. A true single financial services market does not yet exist.

This is why a keen debate is currently taking place on the so-called post-FSAP agenda. This will set out the framework for future action by the EU to integrate the financial services markets.

I.

The integration of euro payments processing is of key importance to the completion of the European internal market. In autumn 2005 the European banking industry will take another decisive step forward towards the Single Euro Payments Area (SEPA).

Over the last few months the European Payments Council (EPC), the European industry body responsible for creating the SEPA, has been drawing up procedural rules for the new pan-European payment instruments. On 21 September 2005, the EPC will publish a blueprint for these rulebooks. After a period of consultation with national banking industries, the EPC will in December 2005 adopt schemes for SEPA direct debits and credit transfers, as well as a SEPA Cards Framework.

This is the basis on which the banks will implement the SEPA instruments in 2006 and 2007. From January 2008 onwards, they will offer their customers corresponding products alongside existing national payment services. Customers will

then be able to make cross-border payments in euros as easily, cost effectively and securely as they do domestic payments today.

Europe's banking industry has thus laid the foundations for SEPA. And, at the same time, it has met the targets of the EPC's 2004-2010 Roadmap. In this roadmap, the European banking associations and banks defined milestones on the road to SEPA and set themselves a series of interim objectives and deadlines. The rulebooks are an important step towards enabling the banking industry to implement the EPC roadmap successfully and on schedule. This is a major achievement for self-regulation.

Ladies and gentlemen, this shows that the process of successive standardisation of payments processing in Europe is already actively under way. The European Commission should accord these initiatives the recognition they deserve. Legislative action is not required to move the process forward.

The banking industry is right on schedule in implementing its responsibilities. Customers will be

able to use the new payment instruments from 2008 onwards. It will then be customer demand that determines when SEPA instruments completely replace the existing national systems.

Both the German and the European banking industries are firmly in favour of leaving migration beyond 2008 – that is the complete replacement of existing national systems – to the market. Such a complex process, with its far-reaching economic implications, should not be dictated by legislators. It should be remembered that considerable investments will have to be made not only by the banks, but by their corporate customers, too. These users of the new payment instruments will also have to make substantial, and costly, adjustments. They will need to adapt their IT systems to the new SEPA processes, for example, and modify their databases to accommodate new requirements. This will take time. We therefore estimate that migration will be complete, that is to say existing national systems will be totally superseded by the SEPA instruments, only in the course of the next decade.

What is more, the SEPA cannot be created by the banking industry alone. Constructive input is also needed from the European Commission and the European Central Bank (ECB). Here, too, some promising steps have already been taken.

The Association of German Banks therefore supports the Commission's initiative to create a coherent legal framework for payment services in the EU. The Commission plans to publish a new proposal at the beginning of October following extensive consultations with the European banking industry. We are optimistic that the extensive comments of the European banking industry and thus its practical know-how will be reflected in the draft.

The new proposal for a directive should, for example, take adequate account of the fact that different payment instruments need to be processed in different ways. The currently envisaged liability rules must also be improved on. The present approach of regulating only the relationship between service providers and users is too short-sighted, in our view. The directive should also define the basis of the relationship between service

providers. It would, moreover, make good sense to cover only payments in EU currencies and limit the scope to payments within the EU. Transactions in US dollars are ultimately always carried out in central bank money of the United States and thus outside the EU.

It is important for this regulatory initiative not to overshoot the target. The planned legal framework must focus exclusively on the actual need for regulation – that is to say the creation of a level playing field in euro payments processing. Using it as a vehicle to force the pace of creating SEPA would be the wrong approach.

It should be the market that decides on products, not lawmakers. There is therefore no need for further regulatory measures beyond the planned legal framework.

Ladies and gentlemen, the Association of German Banks and the joint committee of German banking associations known as the Zentraler Kreditausschuss (ZKA) have worked closely on setting the course for the creation of SEPA through self-regulation. A look

at what has been achieved so far shows there is every reason to feel confident. The procedures drawn up in the EPC must now be implemented professionally at national level. The European banking industry will begin this process early in 2006.

The SEPA project is therefore about to take off. Work will be completed in 2008 as envisaged by the EPC roadmap. The European banking industry has thus met its targets on schedule. How soon SEPA becomes a success story will then largely depend on customers.

II.

Another issue at the top of the post-FSAP agenda is the integration of the retail banking markets. In this area, we still have it all to do. Both customers and banks continue to have to contend with numerous national barriers.

Retail markets are by no means locally structured by virtue of their nature. Retail customers could most certainly benefit from further integration. The

largely local nature of the retail markets with their investment and loan products is not – as often claimed – the result of a decision on the part of consumers. The main reason is the banks' difficulty in accessing foreign markets. The dearth of supply of cross-border financial services cannot automatically be taken as a sign of a lack of consumer demand.

The integration of the retail banking markets should therefore be tackled with the same determination as that shown in 1999 by the FSAP agenda in integrating the wholesale markets.

The Association of German Banks therefore welcomes the Commission's basic intention to move forward integration in the retail area, too. The plans discussed in the two green papers *FINANCIAL SERVICES POLICY 2005-2010* and *MORTGAGE CREDIT IN THE EU* do not go far enough, however. They aim at opening up the market primarily by means of product harmonisation and introducing more consumer protection rules.

This is not enough to bring about full market integration. Prerequisites must be met on the supply

side, too. This is where there is far greater potential for future growth through synergies in product development, contract design and back office services, for example. As things stand, consumers are unable to take full advantage of the variety of products and services doubtless already available on Europe's retail markets.

Modern retail banking – in the private banks' understanding of the term – requires more than an adequate branch network. Customer behaviour has changed. Germany's private banks have adapted to these changes and offer their customers a variety of distribution channels. Multi-channel distribution is the strategy of today. Customers now expect banking services, especially standard services, to be available 24 hours a day. Thanks to the internet, consumers are no longer tied to banks in their neighbourhood, but can freely choose from among a wide range of suppliers.

But there is often still legal uncertainty associated with choosing the products of foreign suppliers. True, there are areas where European legislators have already taken action to harmonise the law. Yet

the resulting national rules still differ quite considerably.

The approach of minimum harmonisation pursued up to now has therefore failed to deliver. The right way forward in our view is successive full harmonisation of areas of law with a particular bearing on doing business across borders. We call this the concept of targeted harmonisation.

III.

Ladies and gentlemen, we call on the Commission to dismantle the obstacles to market access still facing suppliers of banking services and have concrete proposals for how this can be achieved. To make it easier for European banking customers to access retail products on a cross-border basis, the following measures should be implemented, particularly in the field of electronic distribution:

1. Allowing accounts to be opened across borders over the internet would make things much easier for both consumers and banks. At present the law requires a personal appearance

by the customer or a paper-based interim step such as Germany's *POSTIDENT* procedure. This is unsystematic. The European Commission should therefore establish a legal basis allowing accounts throughout the EU to be opened purely by electronic means with a qualified digital signature.

2. In lending business, it should be possible to conclude both guarantee agreements and consumer credit contracts online. This is currently not permitted in a number of member states, including Germany. Consumers are still prevented from taking advantage of a wider range of products and services even though the Distance Selling Directive gives each and every customer a perfectly adequate cooling-off period of 14 days. It is therefore inappropriate, in our view, not to allow consumer credit agreements to be concluded over the internet. We call on legislators to lift this restriction on online banking across the EU and without delay.

In its *GREEN PAPER ON MORTGAGE CREDIT IN THE EU* the Commission also confines itself to consumer protection rules and an attempt to integrate the market by harmonising products. But the market cannot be fully opened up by large-scale harmonisation of the products on offer. We believe that an approach based on competition offers a more promising way forward.

- This means we have to develop a functioning secondary mortgage market.
- We need a legal framework for efficient portfolio trading.
- It must be made easier to assign security rights on property.
- And we need a pan-European mortgage.

We look forward to further steps from the Commission in this regard.

Much, therefore, remains to be done if the potential of an EU market with 450 million citizens is to be exploited to the full. Priority should be given to establishing simple uniform framework conditions throughout the EU so that consumers can benefit from the advantages of a single market for financial

services. So whilst we advocate self-regulation for SEPA, there is still a need for regulatory action to open up the retail markets.

Further steps are required to promote integration in other areas as well. We would like to see more in this respect in the follow-up white paper to May's *GREEN PAPER ON FINANCIAL SERVICES POLICY 2005-2010*. This white paper, which will put forward the legislative programme for the period to 2010, is scheduled for publication in November. It is likely to be the most important EU initiative for the banking sector and will set out the regulatory agenda for many years to come.

IV.

In summary, ladies and gentlemen:

The key project of creating a single payments area is on schedule. By adopting the procedural rulebooks at the end of 2005 and implementing the SEPA instruments in 2006 and 2007, the European banking industry will lay the foundations for SEPA and meet the targets set out in the EPC's 2004-2010 Roadmap. From 2008 onwards, customers will be

able to use the products alongside existing national systems. It will then be up to the market to decide how quickly SEPA becomes a success.

With the integration of retail banking markets, on the other hand, we still have it all to do. The concept of targeted harmonisation should be adopted to eliminate existing obstacles to business across borders and create uniform, pan-European solutions. A priority for the short to medium term must be action to ensure that customers can access foreign products by electronic means.

Thank you for your attention, ladies and gentlemen. I will now take any questions you may have.