

Yves Mersch: Digital transformation of the retail payments ecosystem

Introductory speech by Mr Yves Mersch, Member of the Executive Board of the ECB, at the Joint ECB and Banca d'Italia conference, Rome, 30 November 2017

Efficient and safe retail payments systems are a precondition for the functioning of any modern economy. They allow for everyday transactions to take place, thus providing the foundation for commerce and trade.

Central banks through cash and banks have traditionally offered these services. And they were successful in creating a secure and trusted payment ecosystem for consumers.

However over time the banking **ecosystem has developed inefficiencies**. It has lost some ability to innovate and adapt to the changing needs of the end-user.

In Europe technological disruptions, competition from non-banks and regulatory pressure has forced banks to re-examine how they provide retail payment services.

The ability to provide real-time services will be essential if banks want to retain and gain customers. The **strategic importance of instant payments** cannot be overstated.

The move towards a real-time world with the provision of real-time services cannot happen without pan-European instant payments. They will provide a **new framework for innovative and efficient retail payments** in Europe.

My talk today will focus on instant payments but I will also briefly discuss the alleged innovation brought by private virtual currency schemes without an identifiable issuer.

The foundations of instant payments and ensuring stakeholder involvement

The Single Euro Payments Area (SEPA) was the origin of today's digital landscape for retail payments in Europe. It is a key ingredient of Europe's single currency and was necessary to bring the full benefits of the euro closer to all citizens. This integration of electronic retail payments in Europe was full of challenges and was only completed 12 years after the introduction of euro notes and coins. One of the most prominent issues that faced SEPA was the lack of full stakeholder involvement.

Initially, SEPA was considered an “IT” project to be implemented by banks. It was not seen in the overall context of a project that could transform payments in Europe. The project did not engage enough with Europe’s consumers and businesses.

Support from all stakeholders is thus crucial to the success of any such undertaking. To facilitate such support, the ECB established the **Euro Retail Payments Board** (ERPB). The ERPB brings together both sides of the market, the supply and the demand side, the banks and the end users in order to further the development of an integrated, innovative and competitive market for euro retail payments in the EU. This co-operation has led to new synergies. It gave a voice to those who felt excluded from the process of innovation in retail payments.

Recently we have gone further to enhance European cooperation and have established, in conjunction with the European Commission, the **European Forum for Innovation in Payments** (EFIP). This body brings together the national payments committees with the ERPB to foster integration and innovation for retail payments in Europe.

The ERPB was instrumental in bringing the vision of real-time payments to Europe with the inception of instant payments. The European Payments Council, acting on guidance from the ERPB, created the SEPA credit transfer instant scheme. I am pleased that this scheme was successfully launched last week and let me congratulate the following eight countries who signed up as of today to the service. The tech savvy nations are: Austria, Estonia, Germany, Latvia, Lithuania, the Netherlands, Italy, and Spain. Now, European end-users whose banks have already joined and implemented the scheme can send and receive instant payments across Europe in less than 10 seconds.

A positive end-user experience will ultimately determine the success of instant payments. The ERPB is supporting the work of the industry and other stakeholders to facilitate the initiation of an instant payment using the recipient’s mobile telephone number as a proxy for their IBAN, no matter where they are located in the EU. The ERPB expects that a pan-European mobile proxy lookup service will be ready by the end of 2018 at the latest and I urge all stakeholders to ensure that this deadline is met.

However, to facilitate the full roll-out of instant payments we have to enable reachability of all banks in Europe. To enable full reachability the Eurosystem has decided to launch an **instant payments settlement system** in central bank money, the Target Instant Payment Settlement (TIPS) Service. TIPS is scheduled to go live in November 2018.

Appropriate regulatory framework

SEPA and instant payments did not happen in isolation. An appropriate legislative framework that supports digitisation, innovation and competition is also needed. In Europe we realise this importance. The revised Payment Service Directive (PSD2) will provide the necessary legislative framework to allow for innovation. It will enhance payment account access for regulated and authorised third party providers. It will facilitate the participation of

new actors in the payments market. These actors will provide new innovative services, reduce costs and give consumers more choice.

However this can only happen if standardised access to the payment account is provided. I would therefore call upon stakeholders such as banks, standard setting organisations and, third party providers to work together to ensure a **single standard is developed for payment account access**.

The competition introduced by the revised Payment Service Directive can also provide an opportunity for incumbent banks but only if they **act urgently to implement instant payments**. It is crucial that banks invest to upgrade their legacy batch systems to enable real-time processing and offer end-user solutions for instant payments. These solutions can provide them with a strong tool to face the upcoming competition.

The recent experience with contactless payments shows that banks, in cooperation with other stakeholders, are well capable to roll out payment innovations that can quickly take off and improve end-users' payment experience.

Virtual currencies

It is my view that future innovations in retail payments will be based on instant payments in combination with account access provided by the PSD2. I would like to stress this point especially in view of the ongoing public debate around the **alleged innovation brought by private virtual currency schemes or tokens**.

While we have seen a substantial increase, albeit from low levels, in the value of some of the virtual currencies lately, we should not forget that their usage as a settlement asset is marginal and the **overall user acceptance as a means of payment is negligible**.

In fact, retail payment traffic in Europe alone is orders of magnitude higher than the global transaction volume of virtual currencies. In view of the speculative market environment for virtual currencies and for other types of virtual financial assets, one should bear in mind that these are by definition virtual: they do not constitute a claim on an issuer and **do not formally qualify as currency**.

Their purchasing power fluctuates wildly and depends solely on the market activity of speculators. It remains to be seen whether these virtual currencies can be considered as a payment alternative for consumers – except in extreme cases like in failed states – and to what extent they can compete with the solutions market players will be able to develop in the **safer and more efficient European retail payments market**.

The ECB continues to monitor these developments, not only from a market infrastructure perspective, but also as regards monetary policy, financial stability, and prudential supervision. And while we continue to fully meet the increasing demand for safe and efficient banknotes we shall also experiment with cash on different digital technologies. Other adventurous

applications of a more disruptive nature are simply not robust enough from a legal, operational, governance point of view to name but a few shortcomings which make these assets unfit for recognition from the point of view of our mandate of efficient payments systems.

Conclusion

To conclude, the benefits of digital transformation and innovation for citizens can only be achieved by means of full stakeholder cooperation and an appropriate regulatory framework that fosters innovation.

Banks need to implement instant payments as soon as possible and provide an alternate narrative to the ongoing public debate on the alleged innovation brought by virtual currency schemes.

Instant payments in conjunction with the building blocks provided by the PSD2 can offer new business opportunities for banks and third party providers and provide citizens with a real-time safe payment experience.

Thank you for your attention

[ECB, ESMA and FSMA seek participants for Euro Risk-Free Rates Working Group](#)

The European Central Bank (ECB) has launched a [call for expressions of interest](#) to participate in the Working Group on Euro Risk-Free Rates for the euro area. The call is also issued on behalf of the European Securities and Markets Authority (ESMA), the Belgian Financial Services and Markets Authority (FSMA), and the European Commission.

The new working group's terms of reference were also published today and its work will be guided by them.

Applications are encouraged from financial sector representatives and non-banking institutions or associations. Candidates for the working group are asked to express their interest by 12 January 2018, using this [application form](#).

Working Group

The working group, which will be chaired by a private sector representative and with a Secretariat provided by the ECB, will regularly consult market participants and end-users, as well as gather feedback from other public authorities. To ensure transparency at all stages of the identification and adoption of a new risk-free rate, the working group will regularly report on

its meetings on the ECB website.

The ECB expects the working group to be operational and its composition to be announced by the beginning of 2018.

As announced in a joint press release by the four institutions on 21 September 2017, the new working group will be tasked with the identification and adoption of risk-free overnight rates to serve as a basis for an alternative to the current benchmarks used in a variety of financial instruments and contracts in the euro area.

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Joint press release of the United Nations, the African Union and the European Union

The United Nations Secretary General, Antonio Guterres, the Chairperson of the African Union Commission, Moussa Faki Mahamat, the President of the European Commission, Jean-Claude **Juncker**, and the High Representative/Vice President Federica **Mogherini** met this morning in the margins of the African Union/European Union Summit to discuss concrete steps to address jointly the dramatic situation of migrants and refugees victims of criminal networks, in particular inside Libya.

They agreed to put in place a joint EU-AU-UN Task Force to save and protect lives of migrants and refugees along the routes and in particular inside Libya, accelerating the assisted voluntary returns to countries of origin, and the resettlement of those in need of international protection. This action will build on, expand and accelerate the ongoing work done by countries of origin, and the IOM, with EU funding, which allowed so far the voluntary return to their countries of origin of 13 000 migrants since January.

The work of the Task Force will be closely coordinated with the Libyan authorities and be part of the overall joint work that the African Union and the European Union, and the United Nations, will intensify to dismantle traffickers and criminal networks, and to offer opportunities of development and stability to countries of origin and transit, tackling root causes of migration.

The United Nations, the African Union and the European Union agreed to upgrade in a systematic manner their trilateral cooperation and to meet on a regular basis at the highest political level, notably in the margins of the UN General Assembly.

Press contacts:

For the African Union Commission:

For the UN:

General public inquiries: [Europe Direct](#) by phone [00 800 67 89 10 11](#) or by [email](#)

Opening statements by Vice-President Jyrki Katainen and Commissioner Elżbieta Bieńkowska at the press conference on Intellectual Property rights package

Vice-President Katainen

Today the College has adopted a package of measures on Intellectual Property.

This is not just an issue for patent lawyers and legal departments in big companies.

It actually concerns all of us. And the stakes are high. It is estimated that IPR-intensive sectors account for around 42 % of EU GDP, generate 38 % of all jobs, and contribute to as much as 90 % of EU exports.

We live in a knowledge economy. Be it a film, a new technology, a new medicine or a new recipe: our ideas, our know-how, our inventions – they generate jobs and growth.

We need our many researchers, inventors, creators and start-ups to continue investing in new ideas and knowledge.

We have a solid Intellectual Property Rights system in Europe, where people and companies can seek protection via patents, trademarks, copyrights and designs, and see their investment rewarded. Our system also provides Member States with the tools to enforce these rights, by allowing right holders to defend themselves against counterfeiting and piracy, and see abuses penalised.

But we need to improve the system in light of new developments:

Firstly, the digital revolution has opened up many new opportunities, but the online world also allows illegal products and content to proliferate more quickly.

Secondly, we are seeing an increase in IP infringements across the globe. 5 % of all imports into the EU are counterfeit and pirated goods. That is about EUR 85 billion in illegal trade.

And thirdly, we are in the middle of a technological revolution where Europe needs to lead in grasping the full potential of 5G and connected objects (“the Internet of Things”).

These are the trends we are responding to today.

Commissioner Bieńkowska

Today we are presenting a comprehensive set of measures which I will summarise in two main strands:

Firstly, how we are stepping up the fight against counterfeiting and piracy.

Secondly, how we want to support our investment in the Internet of Things with a fair and balanced system for Standard Essential Patents.

Let's start with counterfeiting and piracy. This is a criminal and lucrative activity that harms us all. Companies lose money, people's jobs are at risk, public revenue is lost.

And we are not only talking about fake luxury goods like a nice handbag. No, when we buy fake medicines or fake toys, our health and safety is at risk, too. Jyrki recalled the important economic impact it may have. So we take the issue very seriously.

And we are acting. We are acting focusing on the big fish, the people who are doing these things as a large-scale commercial operation.

Let me highlight three main elements of our initiative:

-We are providing guidance on the application of the 2004 Directive on the enforcement of intellectual property rights (IPRED).

The Directive has proved to be relevant in fighting abuse but there have been differing interpretations among Member States. The guidance clarifies these interpretation issues.

Now, I can already hear some people say: "Why aren't you proposing new legislation?" Well, because it isn't needed.

Our evaluation of the Directive shows that it is fit for purpose, but it's the interpretation across the Single Market that needs to be improved.

With this guidance, we are increasing legal certainty for all stakeholders and facilitating civil enforcement across the EU. And we are doing so straight away, without the need for new legislation which – you know this as well as I do – can take years to adopt.

Moreover, some of the issues that stakeholders have raised actually fall outside of the scope of the Directive, so a legislative change wouldn't help that. That is why we are dealing with those issues separately. For instance, the role of online platforms and liability issues is addressed in our recent guidelines for online platforms to tackle illegal content.

-We are also supporting industry-led initiatives to combat IP infringements. Voluntary cooperation helps curb online sales of illegal goods and content efficiently. Since the 2011 Memorandum of Understanding on the Sale of

Counterfeit Goods via the Internet, a significant number of offers for counterfeit products have been removed from online platforms. We are now working on similar industry agreements in the areas of advertising and of payments services.

-And, in close cooperation with Cecilia Malmström and her services, we are stepping up efforts to reduce IP abuses in third countries. We will create a watch-list of countries that engage in, or facilitate, substantial IPR infringement. And we will work with customs authorities to stop counterfeit products at the EU's external borders.

Now let me turn to Standard Essential Patents.

What are we actually talking about? Our smartphones are full of technology such as WiFi or 4G. This technology has become industry standard, allowing smartphones to be interoperable. The technology is protected by Standard Essential Patents.

Now, with the introduction of 5G, and the growth potential of increasingly connected objects around us (the so-called Internet of Things), it is essential to get the system right.

Two interests are at stake:

-On the one hand, patent-holders rightly expect to be rewarded for their investments in research and innovation and for offering their best technologies for inclusion in standards.

-On the other hand, product manufacturers, including many SMEs and start-ups, want to be able to access technologies under transparent and predictable licensing rules to offer new functionalities on the basis of that technology.

There is a fine balance to strike. The parties are best placed to arrive at a common understanding of what are fair licensing conditions and fair rates, through good faith negotiations, on a case by case basis.

But if the market doesn't get it right, we will miss the global race to lead in technological innovation such as connected cars.

That is why today we offer guidance and recommendations for a balanced and efficient SEPs system where the two objectives are reconciled.

In doing so, we are the first jurisdiction to set out the path for a more transparent and predictable system. In doing so, we are placing Europe as a frontrunner in the global race for 5G and the Internet of Things.

The statements can be watched [here](#) and [here](#).