



GROUPEMENT DES CARTES BANCAIRES "CB"

**The Road to SEPA**  
**Paved with challenges & opportunities**

**David STEPHENSON**

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# Topics



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## ① what is SEPA ?

- political perception ?
- what are we trying to legislate ?

## ② Organisation of card systems in Europe

- current situation
- what is possible ?
- the issue of unbundling

## ③ The proposed Directive for Payment Services in the Single Market

- will it achieve full harmonisation ?
- possible impacts on card systems

# Groupement des Cartes Bancaires « CB » Credentials



≈ **325 billion €** total transaction value



⇒ Payments with CB cards = 236 billion €

≡ 1/4 of French household expenditure

almost 30 % if 89 billion € cash withdrawals with CB cards is included

≈ **6.3 billion** transactions

⇒ More than cheques

⇒ includes 5 billion CB payment transactions

⇒ 36% of SEPA



> **51 million** CB cards

⇒ 15% of SEPA

⇒ 87% of French adult population holds a CB card



≈ **1.1 million** Points of Acceptance

⇒ 26% of SEPA



> **46150** ATMs

⇒ 20% of SEPA

**35 / 146** Members are Foreign Banks



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① **what is SEPA ?**

# Different views of the same SEPA concept or different concepts of SEPA !?



①

« To create a single market in which all consumers and businesses can carry out **electronic payments** throughout the **European Union**, .... at least as easily, quickly, reliably, and securely as can currently be done within the most efficient payment systems in Member States .... »

②

«Within the SEPA customers will be able to make payments throughout the whole **euro area** using **a single payment account and a single card** (as they do within their own country)»

« SEPA is the integrated market for **payment services** ... where there is no distinction between cross-border and national payments within the **euro-area** ... »

③

④

« ... to provide the market with an appropriate framework for consolidation and incentives for integration of **EU payment systems** »

« ... enable European customers to use **general purpose cards** to make payments and cash withdrawals in euro throughout the SEPA area, which is defined as the **area within the EU where customers can make and receive payments in euro** ... »

⑤

⑥

«What is the SEPA ? ... A double ambition :  
- a fully **integrated payment system for the Euro**  
**Extensive modernisation** (Lisbon agenda) »

# A shared vision for a Single Payment Area



- **Pan-European use of all cards** should be possible
- **Elimination of borders** : an enlarged domestic market (EU12,EU25,EU29) for all players (banks, payment systems and platforms)
- access to the market and systems to both existing players and new entrants : **increased competition**
- **harmonised legislation** across the EU
- need for **increased security** through common standards (eg chip and pin cards)
- **increase efficiency** and improve services for users (consumers and businesses)

# Banking Sector Approach

Work done by the European Payments Council

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- EPC was established in **June 2002**
  - **64 members** : major European banks & European Banking Associations representing 27 European countries
  - to investigate & **recommend an architecture for the Single European Payment Area (SEPA)**
    - defined as countries and territories subject to EC Directives, Regulations, and Recommendations
  - for **credit transfers, direct debit and card transactions**
- **SEPA Cards Framework** adopted in September 2005
  - **High Level Principles** for Card Schemes
  - **Business driven services**, not a public utility

# The SEPA Cards Framework (SCF)



## Common certification processes

- For cards & terminals
- no proprietary « certification » mutual recognition for certification

## Convergence towards European and International standards

- implementation of EMV chip and pin throughout SEPA by 2010
- standards extended to other domains

## Risk Management & Security

- Co-operation in the fight against fraud
- provision of statistics to a SEPA anti-fraud database
- EMV + pin code

## Rules & Regulations + Licences

- Transparent & non-discriminatory membership conditions
- “unbundling” of tariffs
- acquiring and issuing licences for SEPA

## Remove obstacles for acceptance of SEPA cards

- For ATMs and EFTpos terminals

## Separation of Management & Processing Activities

- Separation of card scheme from the rest
- free choice of operator and technical platform





# Possible SEPA scenarios

source : EPC in the SEPA Cards Framework

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① **Use of International Systems** for national transactions

② **Evolution of one or more national systems**

- *extension of existing systems ?*
- *bilateral agreements ?*
- *mergers ?*

③ **Co-branding of national systems with international systems** provided both have become SEPA compliant

... and any combination of the above solutions

... or any other solution



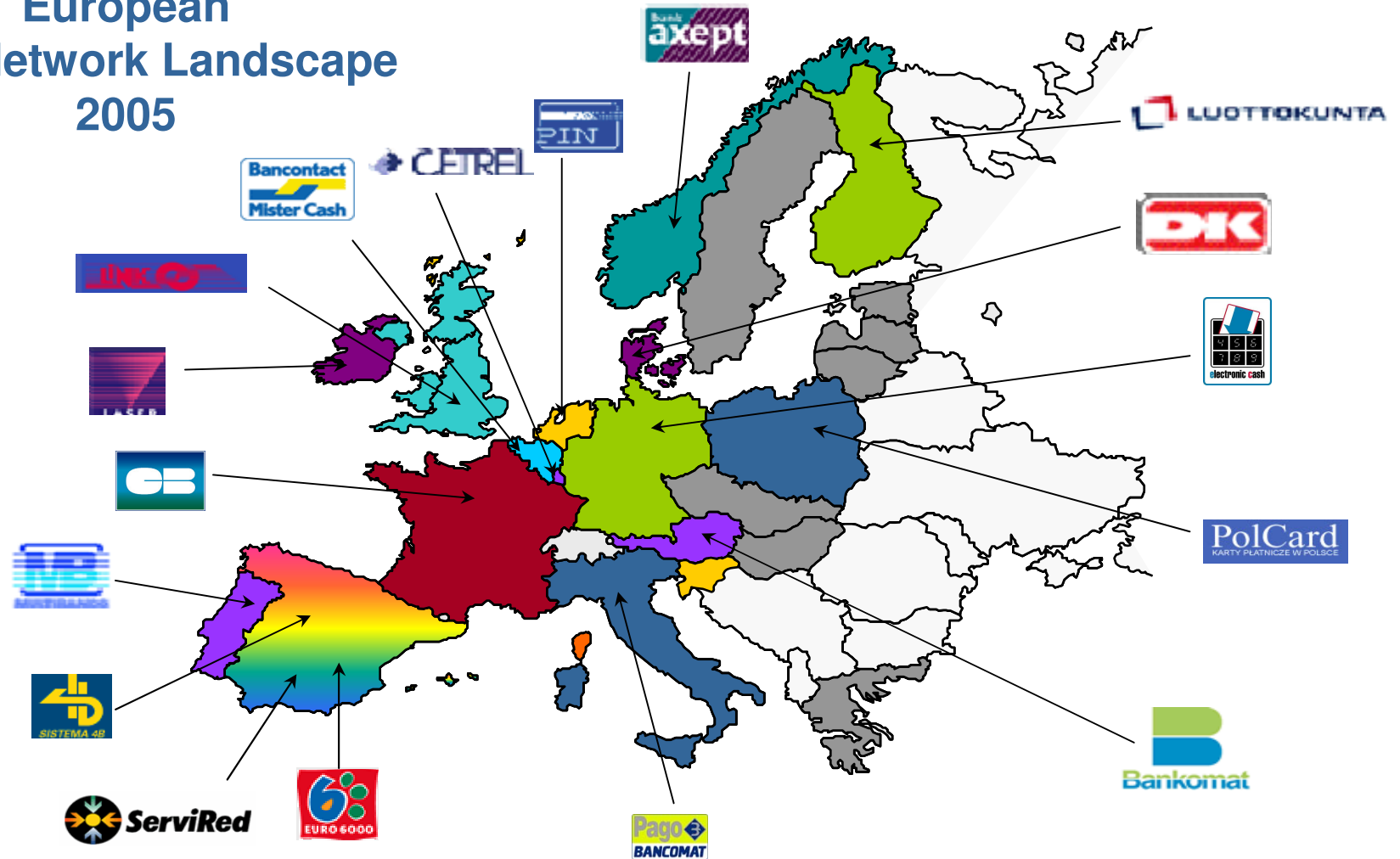
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## ② Organisation of card systems in Europe

# Organisation of Card Systems in Europe



## European Card Network Landscape 2005



# 2005 : organisation of Card Systems in Europe

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- **A multitude of card systems in each Member State** (in particular for debit cards)
- **a wide variety of organisational models for interoperability between banks** at a national level
- **a multiplicity of business models**
- different **legal regimes**
- different **technical standards**
- different levels of **importance given to security** of card transactions
- the **majority of intra-European transactions are local**
- **intra-SEPA cross-border activity**
  - ⇒ is almost entirely managed by Visa and MasterCard
  - ⇒ in some countries, the international networks, Visa et MasterCard, are also positioned as national operators

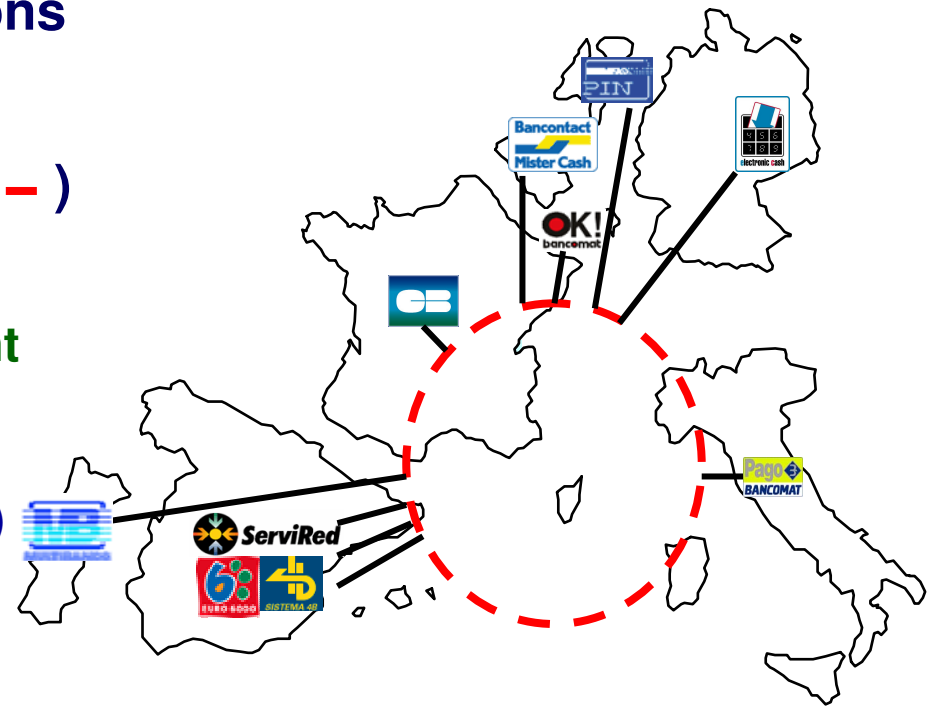
# Intra-SEPA card transactions (current situation)



- Today, intra-SEPA transactions represent **less than 5%** of total SEPA card transactions
- card schemes in EU States have to use international card scheme networks ( - - - ) for authorisations & clearing

## For example transactions with CB cards represent

≈ 6 billion processed within CB system (98%)  
only ≈ 130 million processed outside CB system (2%)  
**only** ≈ 70 million in Europe ( - - - )  
only ≈ 60 million in Rest of the World  
including Switzerland



Currently 3 million € p.a. processed by  
CB affiliated merchants outside France

• Viable solutions are needed to meet this challenge in terms of cost & security

# Building SEPA

## What is possible ?



**In the 1980's in France there was pressure from market forces :**

- users (merchants & cardholders) wanted to be able to **access each of 3 existing competitive card schemes**

**⇒ creation of Groupement CB in France - principles :**

- **cards from any bank** used **in every bank terminal**
- **universal cards** (one card for both payments and cash withdrawals)
- **interoperability** : need for common standards
- **fight against fraud** : security provided by chip and pin
- respecting **common rules & regulations**
- based on a **common harmonised legal framework**



**a Single Card Framework exists in France since 1984  
equivalent to the European objective for 2010 (SEPA)**

However 20 years ago  
the problem was much simpler !!

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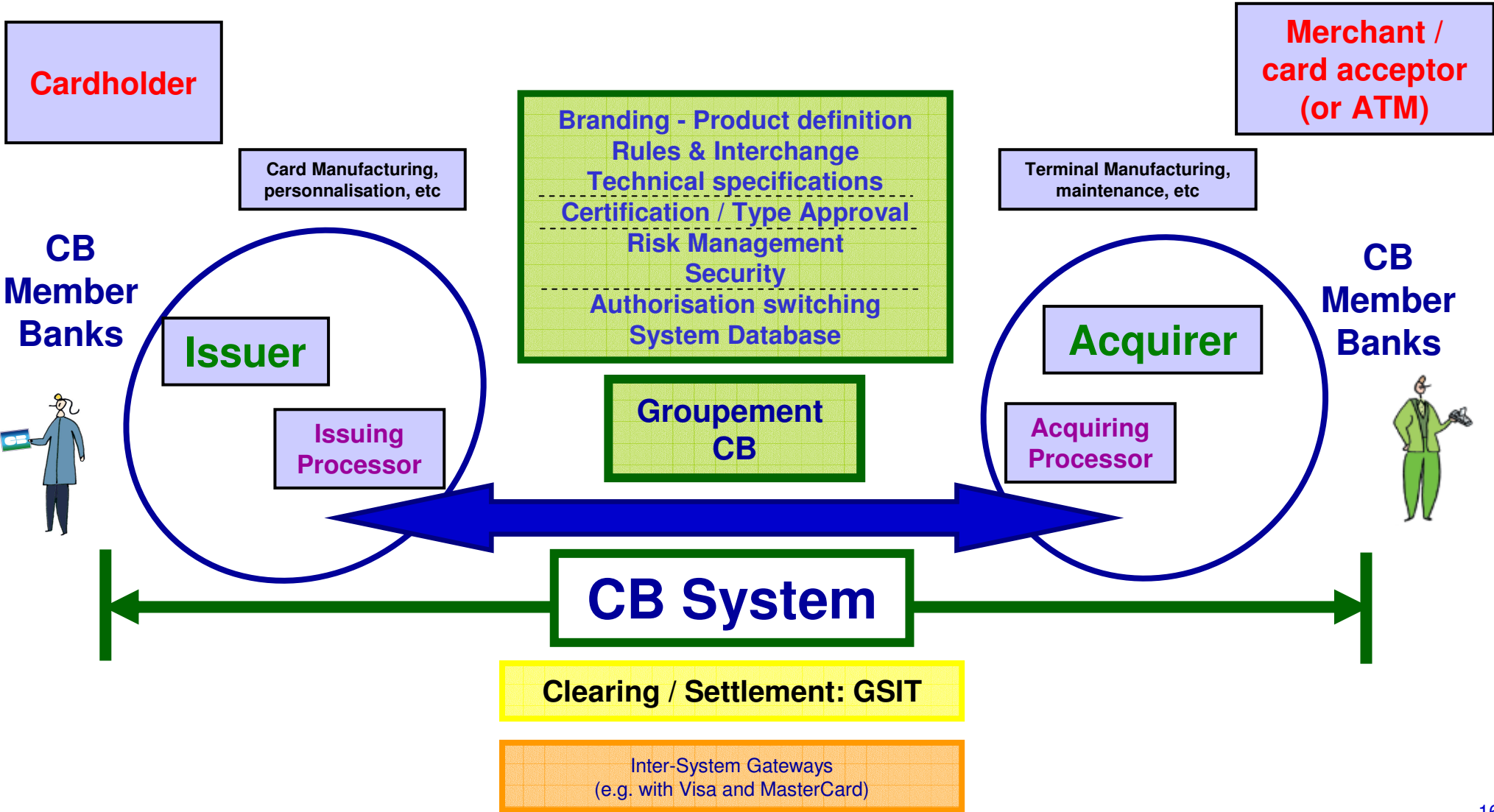


- **Only 3 systems** in France at that time compared with 25 in the EU today
- **only one law** in force as opposed to 25
- the number of transactions was relatively **small**
- card technology was in its **infancy**
- investments were **smaller**
- the business case was **clearer**

# UNBUNDLING : Gie CB vs CB System



Shared technology platform : but Members compete on services



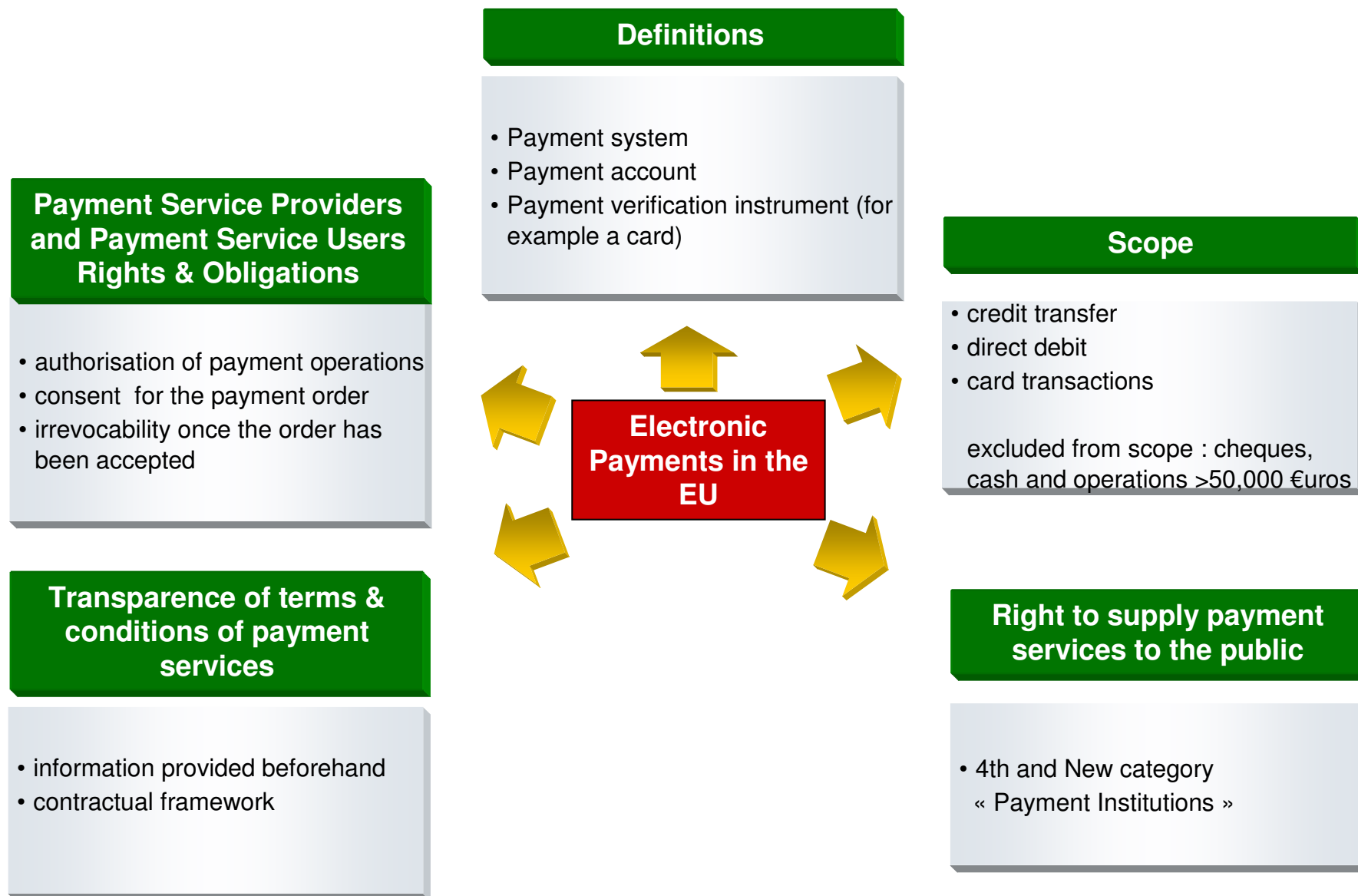




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## ③ The proposed Directive for Payment Services in the Single Market

# Directive on Payment Services in the Internal Market (The New Legal framework : NLF)

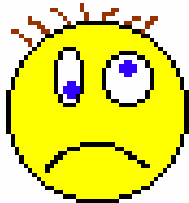




## The views of 4 Card System experts



⇒ **almost nothing to change**



⇒ **everything must change**



⇒ **wait for national legislator,  
... then we will decide**



⇒ **text is open to interpretation  
... we can do whatever we want**

# The proposed Directive

## Why is there so much confusion ?

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- **absence of clear political goal**
- **single unique text** covers direct debits, credit transfers & card transactions
- **will it achieve full harmonisation in the EU...** if national legislators each interpret the text differently ?
- **will it be neutral ...** favouring some payment instruments rather than others ?
- **is it reasonable** to legislate on “payment services” without using the term “payment instrument” or “payment method” ?
- **will the introduction of “Payment Institutions”** provide a level playing field ?
- **are the 2008 / 2010 timelines realistic ?**

# What is the Political Goal for SEPA ?



**ANSWER A : *Consumer can use the different types of payment as easily and under same conditions as at home***

- ⇒ interconnection of existing systems : interoperability between banks (e.g. clearing & settlement)
- ⇒ technological challenges / security
- ⇒ applicable law
- ⇒ choice of business models

**ANSWER B : *SEPA must be a domestic zone in itself***

- ⇒ build new systems (card schemes ?)
- ⇒ European sovereignty
- ⇒ one business model



[www.cartes-bancaires.com](http://www.cartes-bancaires.com)

 + 33 (0) 1 53 89 35 96

[david-stephenson@cartes-bancaires.com](mailto:david-stephenson@cartes-bancaires.com)