

The European single market in payments nearing completion

For around ten years, the European Union, the Eurosystem and the European banking industry have been working on creating the Single Euro Payments Area (SEPA) in Europe.¹ The project has now reached a key milestone: end-dates have been set for migration to SEPA. National payment schemes for credit transfers and direct debits will be replaced by the new SEPA payment instruments from February 2014 onwards. These deadlines have been outlined in an EU regulation scheduled to come into force in the second quarter of 2012. The formal endorsement by the European Parliament and the European Council is still pending. The regulation specifies technical requirements for credit transfers and direct debits in euro that do not apply solely to interbank transactions but also directly to bank customers.

However, alongside credit transfers and direct debits, cashless payments also encompass card payments and new innovative procedures for payments via the internet or by mobile phone, which show considerable market potential. To boost the synergy effects of a single European market in this area too, politicians are paying increasing attention to these market segments. With the current public consultation on a Green Paper,² the European Commission is starting to analyse the problem areas with a focus on engendering greater competition, transparency, innovation and security as well as enhancing customer confidence.

¹ The Bundesbank last outlined the individual steps entailed in this process of change in its July 2009 Monthly Report. See Deutsche Bundesbank, Recent developments in German and European retail payments, Monthly Report, July 2009, pp 45-60.

² See European Commission, Green Paper, Towards an integrated European market for card, internet and mobile payments, January 2012.

EU stipulates end-dates for national payment schemes

Market-driven process as starting point

It was the EU's Lisbon Agenda of 2000 which laid the foundations for the creation of a single European market for cashless payments (Single Euro Payments Area: SEPA). Aimed at increasing competition and efficiency, the Agenda sought to introduce uniform procedures and standards for the settlement of euro-denominated payments on a Europe-wide basis. To this end, the European banking industry set up the European Payments Council (EPC) in 2002. The EPC set out to develop and introduce SEPA schemes in Europe based on a market-driven approach. The European Union supported this process and ensured that there was a common European legal framework, particularly by means of the Payment Services Directive.³ This was supplemented by regulation (EC) No 2560/2001 of the European Parliament and of the Council on cross-border payments in the Community,⁴ which ensured that cross-border euro payments of no more than €50,000 incurred the same fees as those for domestic euro payments.

Around 4,500 payment service providers⁵ across Europe have been offering the SEPA Credit Transfer Scheme (SCT) since 28 January 2008. Major changes from the customer's perspective include the need to use the IBAN (International Bank Account Number) to identify the account concerned and the BIC (Business Identifier Code) to identify the payment service provider. The BIC is an 11-digit internationally standardised bank code that can uniquely identify credit institutions across the globe. The IBAN is somewhat longer than a conventional German account number but is largely composed of familiar elements, such as the bank sort code and the account number. The only new features are the standardised country code (DE for Germany) and the two-character check digit. For the general public, this means an initial period of adapting to the new system, which has met with some criticism, especially in Germany. However, past experience in Ger-

many, such as with the postcode changeover, has shown that, by and large, changes of this kind are quickly mastered. Added to this, the banking industry has a vested interest in making sure that the transition runs as smoothly as possible for its customers. Other countries have already successfully completed this process.

The SEPA Direct Debit Scheme (SDD) has been available from the majority of European payment service providers since 2 November 2009.⁶ Along with the SEPA Core Direct Debit Scheme (SDD Core), they offer a scheme that is tailored exclusively for business customer transactions, the SEPA Business to Business Direct Debit Scheme (SDD B2B). With effect from November 2010, the aforementioned regulation on cross-border payments in the Community has required all euro-area payment service providers to be reachable for the settlement of SDD Core, provided they can also be reached for national euro-denominated direct debits. In the case of the SEPA direct debit, the payer's and the payee's accounts are likewise identified by the IBAN, while the payment service provider is indicated by the BIC. In contrast to the German *Elektronische Lastschriftverfahren* (ELV), a one-off direct debit scheme used by merchants, the SDD Scheme requires the payment service provider to observe certain deadlines. One-off or first-time SDD Core direct debits should be presented to the debtor bank five business days prior to the due date, while any subsequent direct debits have to be submitted two days beforehand. As regards the SDD B2B direct debits, the relevant lead time is one business day.

³ See Directive 2007/64/EC of the European Parliament and of the Council on payment services in the internal market.

⁴ See Regulation (EC) No 924/2009 of the European Parliament and of the Council on cross-border payments in the Community and repealing Regulation (EC) No 2560/2001.

⁵ As at January 2012.

⁶ In January 2012, 3,921 credit institutions were registered with the EPC for the SEPA Core Direct Debit Scheme, while 3,441 credit institutions had registered for the SEPA B2B Scheme.

Low level of market penetration achieved by SEPA procedures ...

The market-driven approach to implementing SEPA has not proven to be particularly effective. Utilisation of SEPA schemes has been relatively limited since the outset. Even so, the share of SEPA credit transfers among all euro-area credit transfers settled by clearing houses has risen and now stands at 22.7%. The increased take-up since the end of 2010 is in large part attributable to the ongoing migration to SEPA credit transfers on the part of public administrations. Recourse to the SEPA direct debit has been much more modest. The share of SEPA Core direct debits among all direct debits settled via clearing houses stood at just 0.2% in November 2011.

... necessitated regulation in the area of payments

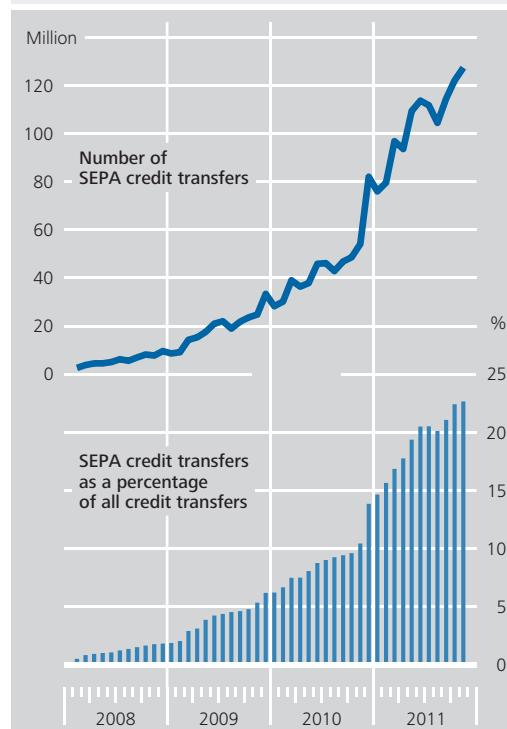
The low level of market penetration achieved by the SEPA schemes bears witness to the fact that the European banking industry has been unable of its own accord to achieve the desired critical mass that would have led to the national payment schemes being replaced. In the absence of any firmly stipulated dates for the national payment schemes to cease operation, it was difficult to set the SEPA process in motion. However, the industry could not agree on a date for discontinuing the national payment schemes. This prompted the EPC to join forces with a host of other interest groups during a European Commission public consultation in the summer of 2010 and call for binding deadlines to be set through regulation.

SEPA Regulation ...

In December 2010, the European Commission presented a "Proposal for a Regulation establishing technical requirements for credit transfers and direct debits in euros and amending Regulation (EC) No 924/2009" (SEPA Migration Regulation).⁷

Upon completing their negotiations, which went on for almost a year, the European Commission, the European Council and the European Parliament finally presented a significantly modified draft regulation. This set out binding technical requirements for euro-denominated credit transfers and direct debits that broadly mirrored the requirements stipulated by the

Use of the SEPA credit transfer in the euro area



Deutsche Bundesbank

EPC in its rulebooks for SEPA credit transfers and for SEPA direct debits, the overall consequence being that only the SEPA schemes are valid for use after the specified end-dates. The existing national schemes typically do not fulfil these criteria. The SEPA Regulation is scheduled to enter into force during the second quarter of 2012.⁸

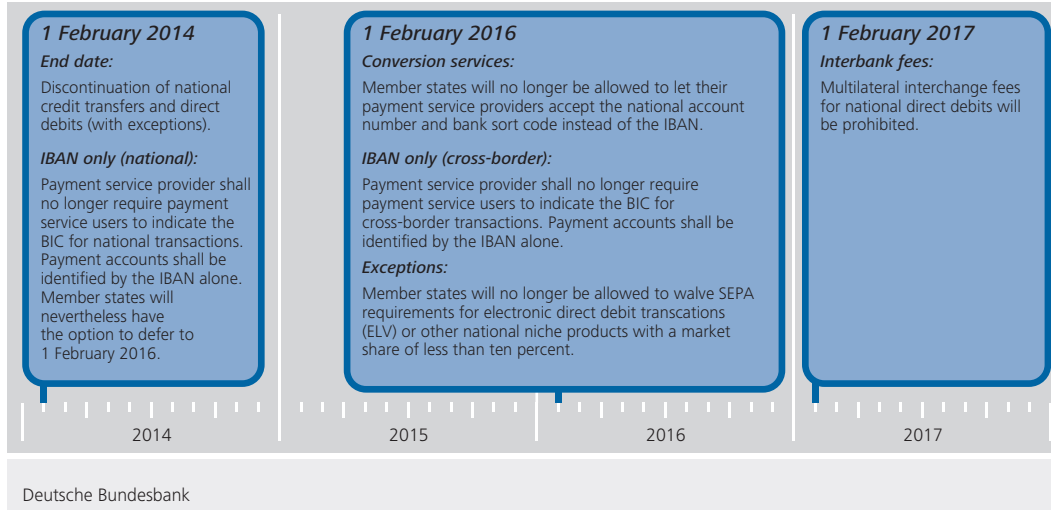
Laid out in binding form, the various end-dates for the national payment schemes are the bedrock of the Regulation. From February 2014 onwards, the payment schemes offered by EU countries for the settlement of euro-denominated credit transfers and direct debits shall be required to meet the criteria set out in the Regulation as a matter of course. Defining a binding end-date for the national payment schemes ensures that there is clarity for each

... sets February 2014 end-dates for national payment schemes ...

⁷ See <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0775:FIN:EN:PDF>.

⁸ See <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/11/936&type=HTML>.

Key dates and information relating to SEPA migration in the euro area



and every actor involved. This is necessary because the existing non-binding framework for changeover has thus far failed to motivate a meaningful number of companies and public administrations to start migrating their payment schemes. The specification of end-dates makes it possible to plan with certainty. It also makes it necessary to forge ahead with the changeover process. The resulting momentum gives good reason to expect a continued steady increase in the level of usage of SEPA credit transfers as well as of SEPA direct debits in the run-up to the end-date.

... and enhances consumer rights

In addition to setting mandatory deadlines for the national credit transfer and direct debit schemes, the SEPA Regulation also enhances the rights enjoyed by the consumer. For instance, it awards account holders additional rights that protect their accounts from improper direct debit transactions. A direct debit may not be executed, for example, if it exceeds a certain amount or if the beneficiary is not included on a list of recognised payees.

Need to collect new mandates for SEPA direct debits eliminated

Boasting a 48.2% share of transactions in the euro area, ie 8.7 billion direct debits annually, Germany is by far the most significant actor when it comes to euro-denominated direct debits.⁹ For a long time there was no answer to the question of how collection authorisations

pre-issued for execution via the German direct debit scheme (*“Einzugsermächtigungslastschriftverfahren”*) could be adapted for use under the SEPA direct debit mandate. This is because (legacy) collection authorisations issued by the payer for the benefit of the payee do not contain a payer instruction telling the payment service provider to honour the direct debit, which is vital for the SEPA direct debit mandate to be valid. Upon migrating to the SEPA Direct Debit Scheme, direct debit creditors would therefore have had to collect a whole new set of mandates. The Bundesbank has repeatedly emphasised that legal certainty is an essential prerequisite for any solution to this problem.

In its judgment of 20 July 2010 (XI ZR 236/07), the Federal Court of Justice outlined a way forward for the banking industry to convert existing collection authorisations and thus make them compatible with the SEPA direct debit mandate by amending the General Terms and Conditions that apply to the relationship between the payer and his payment service provider. For its part, the banking industry has already made the necessary changes to its sec-

⁹ See European Central Bank, Statistical Data Warehouse, <http://sdw.ecb.europa.eu/browse.do?node=2746> (2010 data).

tor's General Terms and Conditions, and these modified conditions are set to become effective on 9 July 2012.

The SEPA Regulation also stipulates that, in the absence of any national legislation or contractual agreement concerning the validity of direct debit mandates, all pre-issued national mandates (eg in Germany: collection authorisation) will remain valid and that upon granting a payee collection authorisation, the payer is automatically instructing his payment service provider to honour any direct debit presented by the payee.

This provides the basis for a legally sound conversion of existing collection authorisations to SEPA direct debit mandates and in so doing has removed a major obstacle to smooth SEPA migration in Germany. It may be assumed that the concerns of some important users of the direct debits (eg insurance providers and publishers of newspapers, journals and periodicals) have therefore been allayed.

When drawing up the SEPA Regulation, all of the parties involved attached great importance to making the changeover as consumer-friendly as possible. With this in mind, the SEPA Regulation incorporates several requirements aimed at realising this objective. These go well beyond the scope of the requirements contained in the EPC's SEPA rulebooks for credit transfers and direct debits.

"IBAN only"

The designated rulebooks for the SEPA schemes require the user to specify both the IBAN and the BIC as the basis for identifying an account. However, since any given IBAN already contains the information needed to identify the payment service provider, it is difficult to convince the bank customer of the need to specify both codes. Thanks to the SEPA Regulation, with effect from 1 February 2016 customers will no longer be mandatorily required to give the BIC. In the case of national payments, this provision shall take effect as early as 1 February 2014, unless the member state utilises the de-

ferred option afforded by the SEPA Regulation, thereby granting itself an exception. Much of the German banking industry has already signalled that it would have no qualms about implementing the "IBAN only" model for national payments by 1 February 2014.

In addition, member states can authorise payment service providers to continue to accept the conventional account identifiers (ie the account number and bank sort code in the case of Germany) from their customers up to 1 February 2016. In such cases, payment service providers would be obliged to provide a free of charge and secure service for conversion to IBAN. During the negotiations, the German government emphatically argued for the introduction of just such a conversion tool. There is therefore good reason to assume that German legislators will take advantage of this option. Together with the "IBAN only" model, this could make a significant contribution to ensuring a smooth migration to SEPA.

The SEPA Regulation also provides for the tried and tested electronic direct debit system (ELV) that is widely used in the German retail sector to continue to be used up to an end-date of 1 February 2016. Under the electronic direct debit system, payment is effected using a payment card at the cash desk. This generates a collection authorisation slip which the customer then signs. Operating as a rival to guaranteed card payment schemes, in 2010 the ELV had a 12.3% market share of retail transactions in terms of value.¹⁰ The envisaged deferral provision ought to give retailers and the banking industry in Germany enough time to draw up a SEPA-compatible alternative to the aforementioned procedure, which evolved over time.

In May 2011, the Bundesbank and the Federal Ministry of Finance set up the German SEPA Council to further support the SEPA project. The Council is made up of representatives from the most important interest groups involved in

Conversion services

Longer availability of the electronic direct debit system ("Elektronisches Lastschriftverfahren")

SEPA process in Germany backed by German SEPA Council

¹⁰ Information provided by the EHI Retail Institute 2011.

*Exercise
of regulatory
caution*

the SEPA migration process. Its mission is to establish common positions towards SEPA implementation in Germany by strengthening the dialogue between the banking industry and end users and by promoting consensus.

Aided in its design by various market consultations, the SEPA Regulation, as it now stands, offers an essentially sound and stable foundation for the future of payments settlement in Europe. Assuming there is sufficient harmonisation at the European level, the various options for individual member states offered by the SEPA Regulation take adequate account of national particularities and thus allow time for the necessary changeover process to occur. This also applies to the extended deadline for multi-lateral interchange fee (MIF) arrangements for national direct debit transactions, which is significant from the point of view of several other countries (including France). The MIF is a standardised fee paid by the payee's bank to the payer's bank. From the perspective of competition law, transaction-related interbank fees are deemed not permissible as they constitute a hidden price element that is ultimately passed on and borne by the submitter. As of 1 February 2017, the SEPA Regulation shall therefore prohibit the levying of transaction-related interbank fees on national direct debits, which is in any case not practised today in Germany.

Further diversification on the markets

*Standardisation
as the basis for
a differentiated
range of services*

The SEPA Regulation sets out basic requirements relating to credit transfer and direct debit transactions which are capable of surmounting the market isolation caused by national barriers within Europe and of fostering competition in the internal market. Thanks to this aspect, it will be possible for payment service providers to further expand their range of services. From a technical standpoint, the common standards introduced by the EPC on the basis of ISO 20022 and contained in the SEPA Implementation Guidelines serve as a spring-

board for further services relating to SEPA payments. Hence, the SEPA rulebooks, which describe the individual SEPA schemes, envisage not just the basic schemes themselves but also optional elements. These optional components, which have to be licensed by the EPC, are designed to satisfy the wishes of specific user groups. Payment service providers can decide for themselves whether they wish to offer such additional services. They are also at liberty to set the relevant prices. In particular, two optional services that are already available have the potential to ensure that adequate account is taken of the interests of certain user groups even after migration to SEPA.

With regard to SEPA direct debits, in response to a special request from parts of the German banking industry, the EPC has sanctioned an option allowing the SEPA Core direct debit lead time to be shortened to one business day, effective from 17 November 2012. This step could result in a closer alignment with the German direct debit scheme under which a direct debit is honoured by the payer's payment service provider immediately upon presentation. Particularly for first-time and one-off transactions, this option has its benefits as the payee can expect to be provided with liquidity more quickly. Public administrations charged with collecting taxes and charges or levying customs duties have shown a particularly keen interest in using a SEPA direct debit structured along these lines. A shorter lead time ought also to be of interest to insurance corporations or investment companies, for example in connection with the settlement of securities purchases. The German banking industry is currently considering whether to support this option in Germany and, if so, in what manner. However, in order to ensure that any such additional services are used efficiently, universal reachability must be guaranteed, at least within Germany. This could be realised through contractual arrangements between the payment service providers, for example in the form of payment operation agreements which are commonplace in the German banking industry.

*"Direct debit
due at sight"*

ISO 20022 standard in retail payments

The global ISO 20022 standard¹ is a universal model for developing international message standards for financial services and is based on XML (eXtensible Markup Language), a widely used syntax for electronic communication.

The European Payments Council (EPC) specified the SEPA message formats on the basis of the ISO 20022 standard. For this purpose, the EPC selected the message formats suitable for the SEPA schemes (SEPA credit transfer and SEPA direct debit) from the ISO 20022 standard and adjusted these to the needs of European payment service providers. The specification of these adjustments is outlined in the Implementation Guidelines applicable for the respective SEPA scheme. The underlying processes, on the other hand, are described in the Rulebooks of the respective SEPA schemes.

During the course of the migration to the SEPA schemes, clearing and settlement infrastructures for the processing of payments were adjusted to process ISO 20022/XML messages. A migration of additional payment messages to ISO 20022/XML standards, for instance those relating to the clearing of card transactions, would make sense as it would allow such transactions to be processed via these infrastructures and thus enable higher economies of scale. On the whole, applying ISO 20022 standards to the SEPA schemes could spark a trend towards a global-level adoption of these standards and serve as the basis for further innovations.

¹ See <http://www.iso20022.org/>.

*The e-mandate
solution for
direct debits*

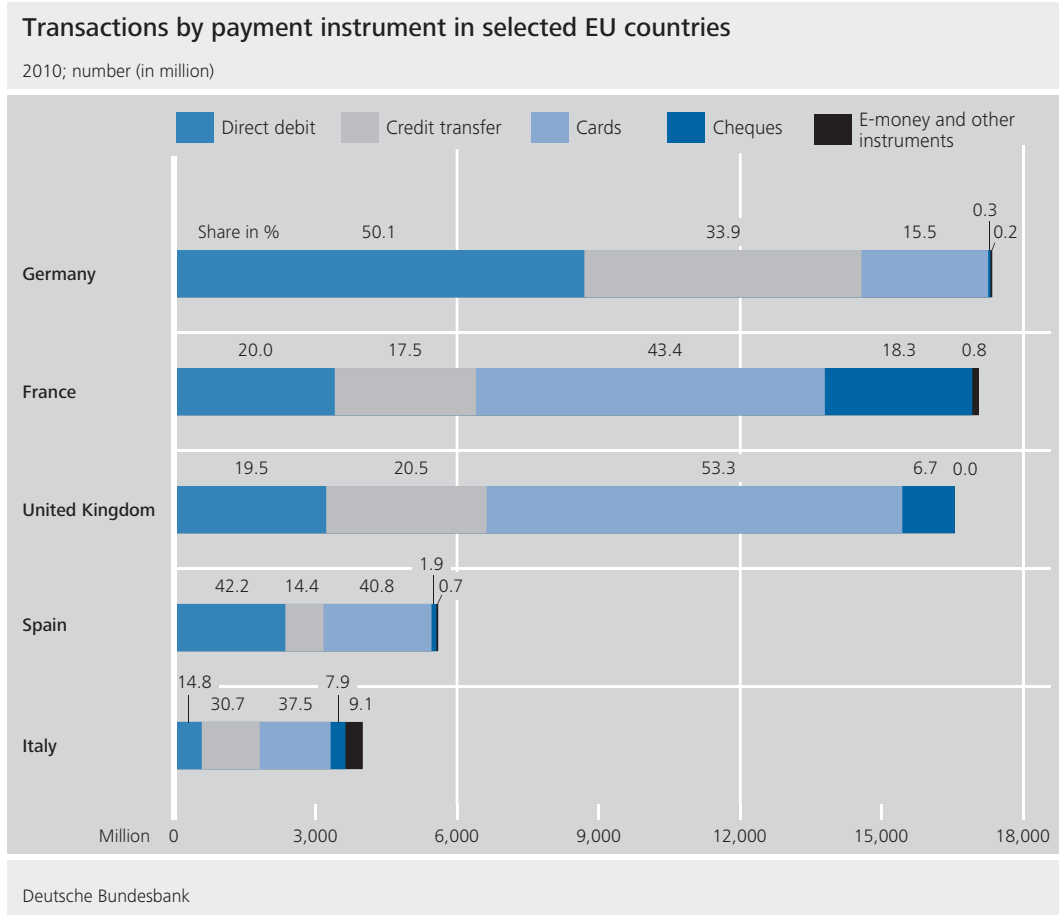
Furthermore, the EPC's SEPA Direct Debit Scheme Rulebook also offers the option to issue mandates created through the use of electronic channels – often referred to as e-mandates. This e-mandate is designed to facilitate the electronic, ie paperless, generation of a direct debit mandate. The SEPA direct debit could then develop into a legally watertight payment instrument, especially in the ever growing field of e-commerce, suitable for use throughout Europe. One major drawback when using the current German direct debit scheme for domestic internet transactions is that, contrary to the procedural rules, no written issuance of a collection authorisation is involved. An e-mandate could eradicate this loophole. Up to now, the e-mandate model has not been implemented in a single member state. Prior to the national procedures being replaced in February 2014, it is incumbent on the European banking industry to devise a sustainable universal solution.

Future of the European payment card market

The use of payment cards is steadily increasing. Between 2008 and 2010, the number of payment transactions made by credit or debit card in Germany rose by an annual average of 7.7%.¹¹ The German market was thus ahead of the euro area as a whole, which recorded a three-year average of 6.8%. However, this indicates that there is still potential for growth in Germany. Indeed, in 2010 just 15.5% of all cashless payments in Germany were made using a card, as opposed to the United Kingdom and France where the corresponding shares were 53.2% and 43.3% respectively. The per capita levels of usage paint an even starker picture of these national differences. While users in Germany were responsible for slightly fewer than 33 card payments each, the per capita

*Steady rise in
use of cards*

¹¹ See European Central Bank, Statistical Data Warehouse, <http://sdw.ecb.europa.eu/browse.do?node=2746>.



rate for France was 114 and in the United Kingdom it was as high as 142.

figure their products according to the different national standards that have applied thus far.

High degree of complexity ...

Unlike the market for credit transfers and direct debits, the market for card payments is characterised by the much larger number of actors involved in the processing of payments as well as by a plethora of different procedures and systems. This results in a far greater degree of complexity, which complicates efforts to harmonise payments operations at the European level.

... owing to the large number of parties involved ...

Settling a card payment requires the involvement of several parties on both sides of the equation. Apart from the card-issuing bank, the cardholder, the acquirer and the card acceptor, a host of other service providers can be involved in the processing of a card payment. Moreover, the manufacturers of the cards and terminals are a further example of actors in the card payment market who are obliged to con-

The European card payment market remains largely dominated by national card schemes. In many European countries, these national card schemes (notably the Girocard in Germany and Cartes Bancaires in France) enjoy a strong market position. The banking industry of any given country therefore usually issues cards that are compatible with the national card schemes used in that country. In spite of this fact, the big international card payment schemes (particularly MasterCard and VISA), which provide not just credit cards but also debit cards (notably Maestro and V-Pay) via the card-issuing institutions, are gaining more and more ground in national markets across Europe. Attempts to create a Europe-wide card scheme have thus far failed to go any further than just the planning and pilot phase. The Euro Alliance of Payments Schemes (EAPS) constitutes an exception. However, handling no more than around

... and the many different card schemes

2 million transactions in 2010, this scheme has grown at a very limited pace up to now.

European card market neither standardised nor harmonised

Unlike with credit transfers and direct debits, the EPC has not yet been able to reach agreement on a detailed rulebook for a SEPA card payment scheme. In Europe at present, numerous different requirements relating to the settlement of card payments are set by the national and international card scheme providers in the form of technical specifications. This makes it difficult for new providers to gain a foothold in the market and for national service providers to introduce cross-border services for the settlement of card payments. In most cases, this means that card acceptors have a limited choice in terms of the pool of potential contractual partners.

To help overcome this inadequacy, it is envisaged that functional and security-related requirements will be defined by the "SEPA Cards Standardisation Volume – Book of Requirements" ("the Volume") at the European level. This work is the responsibility of the Cards Stakeholders Group, which is made up of representatives from all of the key sectors involved in the settlement of card payments (banks, card schemes, processors, merchants and manufacturers). However, owing to the divergent interests of those involved, there has been no discernible progress in reaching agreement on the universal SEPA specifications needed for the practical implementation of the requirements.

Just as with standardisation, efforts to harmonise the certification of cards and terminals for the European market have been fraught with difficulty. For instance, manufacturers operating on a pan-European basis are forced to obtain different certificates in the respective member states. There are therefore plans to establish a SEPA (Security) Certification Framework. Based on a set of harmonised security requirements, test laboratories are to be used to evaluate cards and terminals with the results being passed on to recognised agencies for the purpose of certification. These certificates

would then serve as the basis for licensing within the various card schemes, thus enabling manufacturers to acquire licences for several card schemes using a single certificate

In view of the above, from the Eurosystem perspective there should be a particular focus on standardisation and certification within the card payment market. The European Commission feels similarly obliged to push for a new mix of regulation, self-regulation and competition enforcement,¹² to be drawn up using a broad-based Green Paper consultation.¹³

With respect to competition law, particular attention has been paid in recent years to the establishment of a multilateral interchange fee (MIF) by the card scheme providers, not just in Europe but also in the United States, Canada and Australia. This is a fixed, multilaterally agreed fee levied on each card payment, to be paid by the card acceptor's bank to the card-issuing bank as compensation for costs incurred by the latter. By and large, this MIF has been borne by the card-accepting agent, which in most cases means the merchant who, for his part, indirectly integrates such charges in the price of the goods or services he sells. Until now, most contracts signed with the card scheme providers have prohibited merchants from passing these costs on directly to their customers via surcharging when the latter make a card payment.

Competition-related aspects

Within Europe, the European Commission addresses competition-related matters on a case-by-case basis, in other words where there is concrete cause for doubt it will check for compliance with the principles outlined in Article 101 of the Treaty on the Functioning of the European Union (formerly Article 81 of the EC Treaty). In April 2009 (in the case of MasterCard) and December 2010 (for VISA Europe), the Commission adopted the position that a

Indispensable need for clarity regarding MIF

¹² See J Almunia (Speech/11/889), A fair and open system for payments in the Single Market, 14 December 2011.

¹³ See European Commission (2012), op cit.

MIF of just 0.2% for debit cards (MasterCard and VISA) and of 0.3% for credit cards (MasterCard only) may apply to (cross-border) transactions in the European Economic Area (EEA). MasterCard responded to this ruling by lodging an appeal with the European Court of First Instance, which is still being heard. The Commission has since declared that its decision was taken on the basis of what it calls the “tourist test”. This rests upon the idea that a merchant should be indifferent to the means of payment selected by the customer, meaning that when a “one-time” customer, such as a tourist, makes a one-time payment using a card this should not incur greater costs for the merchant than if cash had been used for the transaction. Nevertheless, it is not fully clear exactly which costs should be considered on the merchant’s side, especially in the case of a cash payment. The Commission’s approach toward evaluating the appropriateness of MIFs in the area of card payments as described here has encountered persistent criticism from the market. Uncertainty remains on the part of both existing and potential card scheme providers inasmuch as they cannot see how a sustainable business model is to be determined on such a basis.

Surcharging for the use of certain payment instruments

Article 52 of the Payment Services Directive prohibits payment service providers (including card scheme providers) from attempting to prevent payees (merchants) levying an additional fee on the payer for the use of a certain payment instrument (eg card payment). Nevertheless, member states are allowed to deviate from this rule, as has happened in Germany where payment service providers remain able to incorporate a surcharging ban in the contracts they conclude with the payees. That said, the payee may not be refused the right to offer discounts on the use of specific payment instruments.

Different card schemes have different policies with regard to surcharging. MasterCard permits surcharging throughout the EEA, whereas VISA only sanctions it in accordance with national legislation. The German Girocard scheme

is scheduled to allow surcharging as of February 2012. A key argument in favour of authorising the practice of surcharging is that it can ensure a level playing field for the various rival payment instruments. On the other hand, its oft-criticised uncertainty in terms of the exact costs of individual payment instruments, including cash, might well constitute an obstacle. It is also necessary to consider the reaction of customers who might feel cheated if charged additional fees, especially in connection with large payments. It may be assumed that the extent to which merchants adopt and apply surcharging is strongly dependent on their individual market position.

Future of innovative payment solutions in Europe

The term “innovative payment instruments” encompasses all solutions for initiating payments that depend on the support of modern information and communications technology. In most cases, these payments are subsequently settled using established payment solutions (eg for credit transfers, direct debits, card payments),¹⁴ whereby a general distinction is made between solutions designed for the processing of payments arising from internet transactions (ePayments) and solutions based on the use of mobile end-devices (mPayments). However, it is not always possible to classify payments clearly because, for example, mobile end-devices are increasingly also being used to access the internet and make online payments.

ePayment and mPayment

At present, special attention is being paid to developments in the area of ePayments. Thanks to the explosion of e-commerce, this market exhibits good growth prospects. In Germany, the volume of online transactions has been rising steadily for years at an average rate of just under 10%.¹⁵ Nevertheless, recent studies con-

¹⁴ See Deutsche Bundesbank (2009), op cit, pp 57-60.

¹⁵ See <http://www.einzelhandel.de/pb/site/hde/node/9365/Lde/index.html> (in German only).

ducted by the European Commission indicate that the market in Europe remains stubbornly national in character.¹⁶

Up to now, the vast majority of e-commerce transactions have been paid for using traditional instruments, in other words on the basis of a credit transfer, direct debit or the use of payment cards.¹⁷ Even so, the growing significance of this sales channel also means an increased need for more modern payment solutions that offer the merchant and the customer alike a quick and secure means of settlement. This is because the unprotected sharing of account details or a credit card number with a merchant when making an online payment by direct debit or card intrinsically harbours an increased risk of abuse.

With the exception of the big international schemes, such as PayPal, there has been little movement in this market to date. In particular, no banking industry solution with Europe-wide reach exists as yet. In cooperation with the EPC, the three online banking-based internet payment solutions in operation in the Netherlands (iDEAL), Austria (eps) and Germany (giropay) started work on drawing up a common framework for linking their solutions. Nevertheless, these efforts came to a halt when the European Commission initiated an antitrust investigation into the framework in question.

These efforts by the European Commission reflect the fact that the market for payment services, and especially for ePayments, is no longer monopolised by credit institutions. Rather, other providers are attempting to secure a foothold. A case in point is the internet search engine Google, which already offers payment services to its US customers in the form of "google wallet" and "google checkout". In Germany, providers of this kind include "sofort-überweisung.de", which offers bank customers access to online banking-based services and has achieved a certain degree of market success in the area of online payment settlement.

On top of this, a major role has been played by the increased endeavours to utilise "Near Field Communication" (NFC) technology in conjunction with various payment instruments. This technology enables the contact-free transmission of data over short distances and can, for example, be used to transfer the data needed to initiate a payment from the chip contained in a debit or credit card to the merchant terminal. This speeds up the payment process and makes it more convenient to use. NFC can be used not just in combination with a payment card but can also, for example, be integrated into a mobile phone. Application of this technology is very much focused on small payments where cash is the dominant means of settlement and rapid processing is of great importance. Since a widespread availability of NFC technology would necessitate large-scale investment on the part of the provider and of the accepting party, the hurdles blocking a breakthrough are very high.

Against this background, praise is due for the German banking industry's initiative which will allow bank cards and savings bank cards to be equipped with a contactless payment function on the basis of the "Girogo" product from the spring of 2012 onwards. In this context, savings banks and cooperative banking institutions will be launching the biggest ever European pilot project for contactless payment in the city of Hanover and its environs, with more than one million cards being equipped with the relevant NFC technology. This could be the signal that merchants need to prompt them to spend money on modifying point of sale terminals to include the contactless payment function. Moreover, the savings banks are planning to take advantage of the new cards to offer Apps for smartphones which can be used for further payment functions. One such function consists in using the mobile phone as a point of sale instrument or equipping it with a card function.

Contactless payment procedures make rapid advances

Limited commitment to ePayments on the part of the banking industry ...

... and growing competition from non-banks

¹⁶ See http://ec.europa.eu/consumers/ecc/docs/mystery_shopping_report_en.pdf.

¹⁷ See the 2009 Bundesbank study entitled "Payment behaviour in Germany".

For this to be achieved, however, the mobile phones also need to have an NFC chip. In addition to the savings banks initiative, Germany's big mobile phone operators are also planning to extend their "mPass" payment service, which is currently available for use only on the internet, by issuing NFC stickers for use in stationary outlets. Above and beyond this, some international card schemes already offer users in Germany cards featuring contactless technology, although take-up is still modest.

■ Outlook

Around four-fifths of all cashless transactions conducted in Germany, which at an annual volume of more than 17 billion represent the largest payment market in the European Union, have to be made compatible with the SEPA schemes by 1 February 2014. If this is to be achieved, the banks and their customers will need to make considerable efforts in the just under two years that remain. Their task will be to make sure that proper use is made of the exceptions granted by EU legislators and that the legally prescribed migration dates are not undermined as a result. Parallel to this, in order to ensure that the imminent integration of the European market is customer-friendly in Germany, it will be necessary to intensify communications with enterprises and consumers. There is also a need to deepen the cross-sector dialogue between parties on both the supply and demand side.

More generally, the impending discontinuation of national credit transfer and direct debit schemes will lead to a re-arrangement of classic payments operations in Europe. Overall, users of payment services in Europe should quickly notice the benefits arising from increased competition. Germany will also be strongly affected by these developments. Notwithstanding the strong price competition that already exists in the area of retail payments, the pressure placed on earnings will continue to increase.

Continued strong growth may be expected in the area of card payments. However, on account of the hitherto inadequate level of European harmonisation, this market segment also harbours the greatest uncertainties. One contributory factor here is the continued lack of clarity in terms of how competition law views multilateral interchange fees. From the German perspective, the Girocard scheme has proved its worth in recent years. New opportunities may arise, principally on account of the increasing use of contactless technology. However, new technical innovations are no guarantee of commercial success. Innovations will only gain acceptance if they offer the provider and the user benefits compared with existing products in terms of their speed, user friendliness, price and level of security. The same holds true for the uptake of mobile phone-based payment procedures. Nor will it be possible to speak of success until the user has access to a sufficiently wide range of applications, subject to the achievement of a critical mass.

With regard to the direction in which payment-related innovations are headed, special note should be taken of the increasing importance of non-banks in this market segment. On the one hand, there are the mobile phone providers who develop payment services. On the other, there are the internet service providers who focus on enhancing stationary outlet services. However, since users place much greater trust in the banking industry as an established provider of secure payment services, many of the non-banks now extending their reach into the market might find it worthwhile to enter into cooperative ventures. At the same time, due account should be taken of the fact that technological progress is likely to bring about a significant convergence of card, mobile phone and online payment solutions.

A consistent and balanced regulatory framework is crucial to developments here. For one thing, it is necessary to ensure a level playing field for banks and non-banks alike, whereby the requirements regarding the security of pay-

ment systems have to be sufficiently strict to retain the confidence of the general public in the payment instruments used. For another, whatever balance is struck between cooperation and competition among the various par-

ties involved needs to guarantee that economic incentives and the chances of a successful upgrade of European payment systems are maintained and, if possible, enhanced.