

Interoperability Of Payment Schemes Is Not Feasible

Comment on article 4 (2) of the proposal for a regulation establishing technical requirements for credit transfers and direct debits in euros

1. INTRODUCTION

This document (EPC038-11) outlines the arguments of the European Payments Council (EPC) supporting the amendments proposed by the EPC to article 4 (2) of the proposal for a regulation of the European Parliament and of the Council establishing technical requirements for credit transfers and direct debits in euros and amending Regulation (EC) No 924/2009 published on 16 December 2010 (hereinafter referred to as the 'proposal'). This document intends to clarify the term 'payment *scheme*'. Conceptual clarity on the meaning and scope of this term is critical to understanding the proposed amendments to article 4 (2) of the proposal.

Article 4 (2) of the proposal currently states: "Payment systems and, where applicable, payment schemes shall be technically interoperable through the use of standards developed by international or European standardisation bodies."

The EPC proposes to amend article 4 (2) as follows: "Operators of payment systems and, where applicable, payment schemes shall be technically interoperable make the payment systems, which process the payments carried out accordingly to paragraph 1 above, technically interoperable through the use of standards developed by international or European standardisation bodies."

2. THE MEANING OF THE TERM 'PAYMENT SCHEME'

A payment *scheme* is a set of **interbank rules, practices and standards** necessary for the functioning of payment services¹. **Payment schemes are developed** by payment service providers (PSPs) operating in a **cooperative and interbank environment**. Delivery of euro credit transfer and euro direct debit payment services in each of the euro area countries operates today on the basis of a **single set of national payment schemes (rules and standards) for direct debit and credit transfer** developed by national communities of banks. This market reality has never been challenged on the grounds of general national public policy or by national competition authorities in EU member states.

The SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD) payment *schemes* are developed – at the request of the European authorities – by the European banking communities cooperating in the EPC. The SCT and SDD *schemes* – as set out in the **SCT and SDD scheme rulebooks and the related implementation guidelines** – **contain sets of rules on the use of agreed standards for the execution of SEPA credit transfer and direct debit transactions** that have to be followed by PSPs. These rulebooks and the adjacent implementation guidelines can be regarded as **instruction manuals** which provide a common understanding on how to move funds (money) from account A in bank X to account B in bank Y within SEPA. The SCT and SDD schemes are based on global standards such as, for example, 'IBAN' (International Bank Account Number) and 'BIC' (Business Identifier Code) developed by the International Organization for Standardization (ISO).

¹ European Central Bank Payments and markets glossary available at <http://www.ecb.int/home/glossary/html/act6p.en.html#631>

Communication between the parties involved in the execution of a payment (payer, payer's bank, payee's bank and the payee) takes place based on so-called message standards or data formats. **The SCT and SDD schemes are based on the global ISO 20022 message standards. The ISO 20022 message standards (SEPA data formats) are binding for the exchange of SEPA payments between PSPs to ensure reachability, as payments are a multi-party networking process.** The SEPA data formats are set out in the implementation guidelines published by the EPC with regard to the SCT and SDD schemes². Implementation of the SEPA data formats in the customer-to-bank and bank-to-customer communication is not mandatory, but recommended.

3. THE PURPOSE OF MIGRATING TO A SINGLE SET OF SEPA PAYMENT SCHEMES FOR EURO CREDIT TRANSFERS AND EURO DIRECT DEBITS

In essence, a **SEPA payment scheme can be compared to other frameworks which prescribe standardised processes to be observed by actors operating in network industries:** such standardisation – or integration – initiatives enable the provision of services by service providers in a two-sided market also across traditional boundaries (for example, national borders). An example of such integration initiatives are standardised **railway tracks** allowing a multitude of commercial railway operators to move their trains across borders. **Similar examples of standardisation in network industries can be found in the areas of telecommunication, television or radio.** In the area of payments, **also the introduction of the euro can be regarded as a means of standardisation.** It needs to be kept in mind that the euro would never have become the common currency of today 17 EU member states if migration to the euro would have been left to market forces.

The purpose of migrating to a single set of harmonised SEPA *schemes* for euro credit transfers and euro direct debits can therefore be compared to implementing standardised 'railroad tracks' for the exchange of payments across the European Union: The SCT and SDD schemes represent the integration at a European level of the multiple sets of single national payment *schemes* existing today. **Migration to a single set of SEPA payment schemes would allow multiple PSPs to offer a broad range of diversified payment services and products for euro credit transfers and euro direct debits SEPA-wide.** As a result, customers would benefit from increased competition and more choices in the payments market. Standardisation at the *scheme* level is the very precondition for increased competition and diversity of PSPs at the *services and product* level. It should be recognised that **the scope of the current debate on migration to SEPA refers exclusively to the replacement of existing national euro credit transfer and euro direct debit schemes equivalent or corresponding to the SEPA Credit Transfer and / or SEPA Direct Debit schemes.** Several other payment *schemes* exist in the market today enabling payment services different from credit transfers and direct debits. These payment *schemes*, such as card schemes, will not be addressed in this context.

It should also be noted that the **EPC is a not-for-profit organisation and makes all deliverables available free of charge**, i.e. the SCT and SDD rulebooks and adjacent documentation are available for download on the EPC web site by any interested party. **The EPC is not a supplier of technology or any goods or services.** The **SCT and SDD schemes developed by the EPC have open access criteria** in line with Article 28 of the PSD). Last but not least, it should be kept in mind that **the SCT and SDD schemes are not commercial brands such as, for example, debit card or credit card schemes. Comparing a not-for-profit organisation with a de-facto monopoly is therefore erroneous and misleading.**

² The EPC implementation guidelines are 'message implementation guidelines' (MIGs) in the ISO language.

4. THE CONCEPT OF ‘INTEROPERABLE’ SEPA PAYMENT SCHEMES DEFEATS THE PURPOSE OF SEPA

To grasp the level of detail that needs to be agreed upon to ensure the proper, SEPA-wide functioning of a payment *scheme*, we refer, for illustrative purposes, to the SCT and SDD rulebooks and related implementation guidelines posted on the EPC web site. For any given payment to be correctly executed under a specific payment *scheme*, the scheme rules must be observed – at a minimum – by the following parties: the payer's bank, the payment *system* (Clearing and Settlement Mechanism – CSM) facilitating the clearing and settlement of funds between two banks, and the payee's bank.

In the absence of such unique scheme rules observed by these parties, it is impossible to execute a payment.

The **SEPA-wide straight-through-processing (no manual intervention) of a combined 33.3 billion credit transfers and direct debits in the euro area³** annually requires agreement on the business rules and standards governing the execution of euro payment transactions. **Payment services can only be delivered SEPA-wide** if the PSPs of all customers adhere to the exact same basic *scheme* rules and standards; i.e. **if banks are ‘reachable’ based on their adherence to the same payment *scheme***. Hence, integration of the currently fragmented euro payments market for euro credit transfer and euro direct debits requires that all PSPs adhere to the same SCT and SDD *scheme*.

The concept of ‘interoperability’ of ‘multiple’ SEPA *schemes* for euro credit transfers and euro direct debits as now envisaged in article 4 (2) of the proposal puts at risk the fundamental requirement of full reachability of all PSPs across SEPA. In consequence, implementing this concept **would counter the objective of overcoming the fragmentation of the euro payments market and disregards the principles governing an optimally efficient payment environment**. In addition, it will not allow that PSPs are able to make a choice for their preferred CSM, where those CSMs adhere to different SEPA *schemes*. Last but not least, establishing multiple SEPA *schemes* would **rule out cost savings to the benefit of bank customers** resulting from the consolidation of cash management operations. Migration to a single set of SEPA *schemes* for euro credit transfers and euro direct debits is the precondition for consolidation and full integration to take place.

The concept of ‘multiple, competing, interoperable’ SEPA payment *schemes* makes about as much sense as arguing that ‘competing’ standards for railroad tracks would boost competition in the transport and cargo sectors. If the latter were to be introduced, the exact opposite would happen: train traffic would come to a grinding halt.

‘Interoperability’ of schemes is a fiction, which even legislation is unlikely to bring about.

Article 4 (2) of the proposal should therefore be amended as outlined in section 1 above; i.e. the forthcoming regulation should refrain from mandating ‘interoperability’ of payment *schemes*.

³ ECB Blue Book (2009).