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MINISTRY OF FINANCE
Finland

Regulatory interventions in retail payments

- why ?
- when?
- how ?

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**Design and implementation details
can always be criticized, but**

**has SEPA been
successful as a whole?**

***How would the payment landscape of EU
look like without the SEPA/EU regulations?***

Reasons for authority involvement due to special market conditions and incentives



Payment service is

- a complementary service; total volume depends on users' economic activity and budgets
- a cooperative network service; customers have to be content with the results of banks' cooperation efforts
- consensus development requiring; banks can delay developments hindering cooperation and coordination
- large scale benefits and chicken&egg dilemma; hindering small scale market entrance
- a cannibalistic zero-sum game; new payment developments will eat volumes and margins of current offerings

Large negative development incentives.

Banks are mostly better off by delaying developments.

Several development dimensions in payments



- Cost efficiency
- Processing speed
- Integration efficiency
- Security efficiency
- Development governance efficiency
- Regulatory efficiency

***Authorities can use regulations&supervision,
operational involvements, cooperation coordination and
research&investigations
to support developments and reduce negative incentives***



Cost efficiency opportunities

- Changing to more low costs ICT solutions, platforms and technical development structures
- Using regional/global standards; ISO 20022 XML, EMV, RFID, IBAN
- Straight-through-processing end-to-end on transaction level
- Efficient customer self-service and netbanking interfaces
- Consolidation and efficient outsourcing

Efficient cooperation to implement cost-efficient technology developments.

Should authorities increase standardization efforts along the SEPA regulation path?



Processing speed

- Banks thrive on slow processing via non-transparent float revenues
- Batch-based processing hinders movement to efficient independent transaction-based processing
- A global payment solution will require a transaction based end-to-end straight-through processing
- Banks have provided realtime transaction-based 24/365-services for ATM withdrawals already over 20 years.
- Why are credit transfers still operating in t+1 mode?

Protection of non-transparent float revenues increases the costs of the systems and customers.

Should authorities require t+0 delivery instead of t+1?

Integration efficiency



- Complete electronic customer-to-bank standards
- Customer-to-customer remittance and reference data for automatic reconciliation and post-processing
- E-invoicing, e-ordering and e-accounting support within payments = important pass-through information to customers
- Standardized merchant EFTPOS terminals
- E-commerce e-payment standardization
- Mobile smart phone integration

The main efficiency benefits can be found in the integration of billions of customer transactions.

Should the efforts partly included in the SEPA regulation be continued with more customer integration efforts?

Security efficiency



- Service providers security views differ from customers and that of the whole economy (short term versus long term stability)
- In the end customers pay for all security costs and risks
- Cross-border e-banking and e-commerce requires regional/global customer e-identification services
- E-criminality and e-criminals' technology know-how grow
- Customers will need enhanced easy-to-use encryption devices in the open malware environments of PCs and smart phones
- Internet security and tracing of e-criminals need improvements

The new eIDAS and PSD2 security requirements will need to be implement efficiently.

Is there a need for planning further security steps?

Competition efficiency



- Controls of centralized and network monopolies
- Open standards
- Open access (3- vs 4-party schemes, only one common scheme)
- Account address and customer data portability and switching
- Increased transparent pricing = decreased float, lower MIFs and reduced cross-subsidizing
- Hidden pricing steer customers to inefficient payment habits
- The subsidized position of cash as legal tender
- Lower entry-barriers
- Customers always pay for inefficient competition

PSD2 , basic payment accounts and the interchange fee regulation has increased competition efficiency

How big is the need to complete the developments towards openness, T+0, interchange=0 and complete portability?



Development governance efficiency

- Developments in payments are service provider focused
- Customers have difficulties in getting their voices heard
- Optimal developments require striking a balance among several conflicting views and cost considerations

***Several attempts to improve SEPA governance,
but rather weak results?***

***Would the situation be improved, if negative incentives
would be reduced and an open competition situation
would prevail more genuinely?***



Regulatory efficiency, risks of regulatory over-kill, shortage and arbitrage

- Are e-money institutions scarce due to economically difficult regulatory business requirements or other factors?
- Has card payments usage growth been hindered by too high interchange fees or other factors?
- Have TPPs (third party payment service providers) emerged due to lack of standardized t+0 e-payment services?
- Have customer integration developments been delayed by inefficient development governance or other factors

Regulatory developments are today characterized by heavy and skew lobbying?

How could the focus and results of authority involvements be improved?

Right balance between analysis, regulation, coordination, operations?



SEPA/EU develops go in the right direction

But should we take a more joint cooperative development approach based on the future possibilities and customer needs?

Which would be the alternatives to gradually increasing SEPA/EU regulations?