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Payments session: Shaping Europe's Payments

Keynote address

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Dear Chairman and dear friends from the France Payments Forum,

Ladies and Gentlemen,

Payments are the daily bread of central bankers and I am very grateful for this opportunity to share our views this morning.

The Eurosystem has both an oversight role and a catalyst role in the field of payments. Not only it promotes the smooth operation of payment systems, but also it ensures the security of payment instruments in order to maintain confidence of the users of the payment systems.

After 20 years of monetary union, the achievements are substantial, including a long-lasting and successful experience in the fight against payment fraud. Fraud rates are at their lowest and currently, together with market players, a lot of work is carried out to enforce PSD2 properly. In France, a migration plan has been agreed and will be closely monitored to progressively shift away from SMS One-Time-Password authentication for online card payments.

At the same time, the environment of payments is rapidly and deeply evolving. Digitization is shaking up the way we pay, opening up a world of possibilities for customers. A few years ago, the only payment options involved paper or plastic instruments. Today, payments can be initiated and received using a wide array of tools (PCs, tablets, smartphones, and even connected bracelets), and can be made through a growing number of technical channels (online banking, mobile apps, NFC, QR codes and more).

These changes represent an opportunity as digitization in the payments sector carries three main promises:

- First promise, simplifying the processes that underline the circulation of cash; the customer is now at the center of concerns under the influence of several factors such as change in consumption patterns, increasing appetite for digital solutions, better knowledge of consumer preferences through the use of data available to Internet service providers. Online retailers, for example, will consider that the payment stage should be as natural as possible so as not to discourage consumer buying. With the emergence of "one-click payments" and the "Internet of Things", transactions are becoming less and less visible to consumers as they are increasingly dissolved in the entire business transaction, until to become almost invisible in the relationship with the customer.
- Second promise, accelerating transaction execution speed through more efficient processing; many countries have already developed instant payment solutions to address the demand from retailers and consumers. The UK's Faster Payments service, for example, does this by enabling faster credit transfers. The SEPA instant credit transfer scheme is designed to do the same for euro payments. Major card industry participants are also getting in on the trend, by developing platforms that can be used to process payments in real time. The emphasis placed on immediacy often goes in hand and hand with demand for continuously available (24/7) payment services.

- Third promise, reducing production costs and providing customers with services that are closer to their needs, more scalable and more easily accessible; for the economy as a whole, this means more efficient financial channels.

However, digitization is also a source of new challenges, which must be addressed:

- Providers of internet-related services and technologies, mobile telephone companies, major retailers have all entered the payments market. Now it is the “BigTechs” (GAFA, BATX) which are gaining ground in the European retail payments market. Payments may not be their core activity, but growth drivers allowing them to collect data in order to capture consumers’ behaviors. This business model allows them to cross-subsidize their activities in payments. Moreover, these new actors build on their notoriety to develop themselves as new brands in payments.
- Such a situation could be disruptive for banks’ retail activities, as these newcomers may capture a significant part of their customer base. This could lead to a drop in retail banking profitability and affect the level of service that banks offer in the long term, resulting in a more fragile banking sector in Europe, possibly endangering financial stability.
- This could also result in a loss of control for European authorities. The European Union would indeed become increasingly dependent on other economic areas such as the US or China, which would put the whole European economy at risk in case of geopolitical tensions. The growing dependency on non-European stakeholders is particularly prominent in terms of data control, since most of these new actors generate and store critical payment information outside the European Union. The Eurosystem would not be able to perform its oversight mission by carrying out on-site inspections in other jurisdictions, while foreign authorities would have access to European payment data.

These upcoming opportunities and challenges call for the implementation of a European retail payments strategy

As of today, payment solutions from European providers are often only domestic, and by way of consequence, the offerings are very fragmented.

This is why we should promote an ambitious plan for the future of retail payments in Europe, through the development of a pan-European payment solution integrating instant payments at its heart. The objectives are threefold:

- First, foster innovation in payments, as a means to diversify end-user solutions, and stimulate market competition through open and interoperable end-user solutions rather than dominant positions made by closed ecosystems. Instant payments, contactless payments and proxy lookup are some of the main features which will structure the future of the industry, and as such should be promoted by regulators.
- Second, preserve consumer trust thanks to payments security including cybersecurity, which is one of our main assets. This entails ensuring that payment providers and infrastructures do not compromise on their security equipment and procedures, especially as regards the protection of sensitive payment data.
- Third, strengthen the EU payment market by promoting enhanced integration between payment communities.

To conclude, it goes without saying that considering such a strategy at the national level only would be a non-sense. Our purpose is to work in close cooperation with other European partners with a view to fostering a collective approach at the European level.

Thank you for your attention