

The European payment landscape: TARGET2 and SEPA

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PAYMENT SYSTEMS DEPARTMENT

THE EUROPEAN PAYMENT LANDSCAPE : TARGET2 AND SEPA

AGENDA

- **TARGET2: The integration process of large value payment systems in euro**
- **SEPA: The integration process of retail payment systems in euro**
 - *Initial thoughts*
 - *The building of SEPA*
 - *SEPA: a two-step approach – 2008 Milestones*
 - *SEPA: a two-step approach – 2010 Milestones*
 - *Final issues*



TARGET2: THE INTEGRATION PROCESS OF LARGE VALUE PAYMENT SYSTEMS IN EURO



The integration process of large value payment systems in euro

CONCLUSIONS

- The TARGET System is a successful precedent in the integration of large value payment systems in euro.
- The technical decentralization supporting the current TARGET functioning makes necessary to strength the integration process.
- TARGET2 tackles the shortcomings associated to the possibilities of TARGET to develop the integration process while will be able to provide a modern system with state of the art functionalities.



The current TARGET system

- Real-Time Gross Settlement System (RTGS) for euro large value payments
- TARGET is the result of the interlinking of the 15 national RTGS systems of the European Union member States plus the RTGS system operated by the European Central Bank
- TARGET went live in January 1999, at the same time as the start of the European Monetary Union
- TARGET Objectives
 - To serve the needs of the execution of the ESCB monetary policy
 - To provide a safe and reliable channel for the processing of interbank and customer payments
 - To contribute to the integration of the euro area money market



The current TARGET system

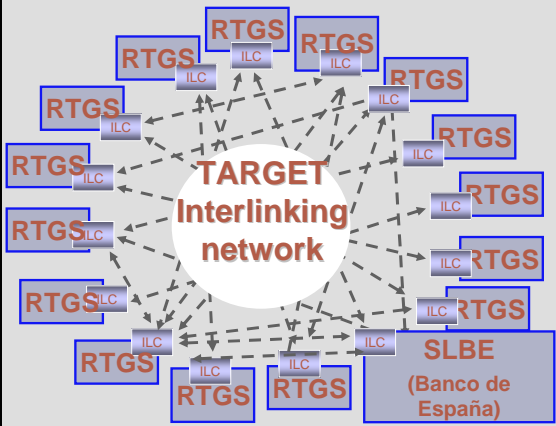
- TARGET fulfils its objectives
 - Efficiency – Together with the Fedwire system, is the biggest RTGS system in the world
 - 2004 Daily average value of payments processed: 1,7 bill €
 - Daily average number of transactions : 267.000 ops
 - Solid legal framework – Immediate finality in central bank money
 - Operational reliability – 99.81 % of availability in 2004
 - Integration of euro area money market – Wide participation
 - High availability of liquidity for participants

The integration process of large value payment systems in euro



The current TARGET system

Has difficulties to face some challenges due to its design:



TARGET Challenges

- Decentralize system. Different technical solutions
- Not harmonized users interface in different countries
- Lack of efficiency in terms of costs
- Different price structure
- Differentiation between cross-border and domestic payments
- National peculiarities in the provision of payment services
- European Union enlargement



The integration process of large value payment systems in euro



Project evolution

24/10/02	ECB Governing council's decision on the long term strategy on TARGET	Multiple-platform decentralised system
16/12/02	Users Public consultation	Deadline April 2003
28/07/03	Joint offer of the central banks of France, Germany and Italy (3CB) to build and operate a shared platform	Consolidation of the idea of single shared platform
31/12/03	The rest of central banks express their willingness to join the shared platform proposed by the 3CB	Confirmation of the idea of single shared platform
22/07/04	ECB Governing Council approval of the General Functional Specifications	The drafting of the User's Detailed Functional Specifications starts
Dic. 2004	The ECB Governing Council accepts that TARGET2 will consist on a single shared platform based on the 3CB proposal	

target 2 The integration process of large value payment systems in euro

The TARGET2 project:

TARGET2 RESPONSES

- Technically centralised system
However, the formal decentralization persists
- Common environment and interface for all users irrespective of their country
- Efficiency in terms of costs
- Common price structure
- No differentiation between cross-border and domestic payments
- Common set of core services
- Easy incorporation of new member states (EU enlargement)

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TARGET2 Overview

1. TARGET2 ≠ SSP
2. Mandatory modules
3. Optional modules
4. Dual account structure
5. Customer relationship at domestic level
6. "Building blocks" concepts

BCNs

- Collateral Management
- Monetary Policy
- Reserve Management

TARGET2

- PHA – Home Accounts
- Customer Relationships Management
- Statistics

Payments Module

- Contingency Mod.
- ICM
- HAM
- CRM
- DW

SSP

- Standing Facilities
- Reserve Management

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- Dual account structure

- Wide range of operations

Transfers	NCBs operations
Direct Debit	Participants operations
Mandated payments	Ancillary systems op.

- Direct and indirect participation

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Improved Liquidity management

<p>SLBE liquidity management</p> <ul style="list-style-type: none"> • RTGS with FIFO-by pass queue mechanism • Priority assignment for one specific payment order • Bilateral and multilateral optimisation procedurs • Intraday credit (repo+pledge) • Liquidity reserves 	<p>TARGET2 incorporates:</p> <ul style="list-style-type: none"> • Active queue management • 3 possible priority levels for each payment order (MU/U/N) • Improved optimisation procedures (4 algorithms with continuous processing) • Sending limits • Definition of execution time and warehouse functionality • LIQUIDITY POOLING
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The integration of ancillary systems settlement procedures

From TARGET ...to.. TARGET2

Wide range of ancillary systems (110), typologies and settlement timetables

A single harmonised interface for all ancillary systems supporting all settlement modalities

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2003 2004 2005 2006 2007

DEFINITION

General Functional Specific Detailed Technical Specificat.

DEVELOPMENT TESTING

Technical implementation

Customer migration process

★ = country window

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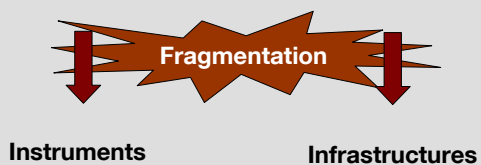
SEPA: THE INTEGRATION PROCESS OF RETAIL PAYMENT SYSTEMS IN EURO

SINGLE EURO PAYMENTS AREA (SEPA)

Initial thoughts

Goal

“To establish a single payment market in euro that ensures that any European citizen can make her or his payments throughout the euro area from a single bank account, using a single set of payment instruments as easily, costly and safely as in her or his national context”



SINGLE EURO PAYMENTS AREA (SEPA)

SEPA: a two-step approach II

Standardisation

- Common standards, rules and conventions : essential for providing efficient pan-European instruments
 - ➔ *Sound governance structure*
 - ➔ *Implementation follow-up*

Major goals

- Strong co-operative links between different bodies (EPC, ECBS, ISO, SWIFT, etc.)
- Streamlining of the work plan (contribution to final goals)
 - ➔ *Basic payment instructions (credit transfers) ✓*
 - ➔ *Value-added services*
 - ➔ *End-to-end services*
 - ➔ *IBAN, STP, simplification*

SINGLE EURO PAYMENTS AREA (SEPA)

SEPA: a two-step approach III

SEPA for infrastructures – 2010

- Pan-European Automated Clearing House - (**PE-ACH**) ✓
- Multiple service providers - (**competition**)
- Larger volume of transactions - (**wider range of services**)
- Finalise the process of consolidation of national infrastructures in Europe – (**adaptation**)

SINGLE EURO PAYMENTS AREA (SEPA)

Final issues

Some problems

- Lack of support and/or opposition by some agents to the SEPA project → *Dialog / Regulation*
- No clear link between high-level objectives and their implementation at domestic level → *Monitoring / Collaboration*
- EU, EEA and euro area : different speed / different goals → *Differentiation*

Some proposals

- Public Administration
- EU legislator
- Inform and educate end-customers

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Thanks for your attention