

# General Discussion

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Session 6

**Mr. O'Connor:** Before we turn it over to the floor for questions, I'll give the panelists a few minutes to ask each other questions or make comments on presentations of other panelists.

**Mr. Edey:** I will just ask Ricardo, who described the setting up of a piece of centralized infrastructure for real-time payments in Mexico by the central bank, did you consider getting the private sector to do that and what sorts of considerations were involved in making that decision?

**Mr. Medina:** Thank you, Malcolm. When we decided to implement our payments system, it was difficult. We first tried to collaborate and see if the private sector could construct and operate a system. There was a lot of conflict of interests, and a lot of big participants wanted to have control of the system. Therefore, we decided it would be better if an unbiased and not very important player in the payments system, like the Central Bank, operated the centralized system. It was a very important decision and there were a lot of discussions internally within the Central Bank. Thank you for the question.

**Mr. O'Connor:** Questions or comments, panel? I'll turn it over to the floor.

**Mr. Grover:** Gerard, EU regulators seem to have experienced a bout of cognitive dissonance. On the one hand, they have called aggressively for the establishment of an additional European new payment scheme. At the same time, they imposed price controls on interchange and they jawboned networks to reduce network fees. So I have two questions for you: In that kind of environment, why would European banks want to invest billions of euros, creating what out of the gate would be an inferior payments system or payment network? Secondly, wouldn't encouraging existing networks, such as American Express, Discover, Diners, to expand in Europe and/or encouraging commercial rollup of legacy national payment schemes be a better path?

*Mr. Hartsink:* OK, I understand the question. Interchange is a complex topic. For cards, the European Commission has taken the stance that the story for cards is different than for direct debit. For direct debit, we had multiple models in Europe at the national level and we had to find a new model for interchange at the European level.

After a debate of I believe three years, we ended up with the perfect number, 9.3 cents as a default. Then, it took the ECB about one day to find out it was 8.6 cents. OK, we accepted that. But then the intervention of DG Competition started and we ended up in a complex game. The market asked for clarity. There were different models. In the end, it was by law and it is part of the SEPA regulation, which is published today, that for direct debit, it is only legally possible for returns and not for regular transactions. That is the outcome.

The policy consequence of the decision is that, in certain member states—think about France, Portugal, Italy—the corporates (the acquiring bank) are not in the end, paying it anymore. Rather, the consumer banks have to charge a bit more to their consumers. That is the reality of this policy intervention.

Second, your question was more related to card schemes. There are several cases on the table in Europe for cards and interchange at the national level but also at the European level. There is one case of one of the international card networks where they did not accept the outcome of the competition authority and it is a pending case at the European court. Nevertheless, the outcome from my perspective as an industry expert is interchange will come down. That means the real debate in the end is not all about interchange. No, it has to do with the discussion of, Who is paying the bill for payments? Should it be the consumer or should it be the one who receives the money? That could be the public sector—20 percent of the number of payments has to do with the public sector—or corporate SMEs.

I am not aware of a strong political stance of the public sector on who is paying the bill. What you hear in a lot of member states in Europe is the question “Who is paying the bill for payments?” The parliaments are crystal clear—the consumer should not pay. Lobbyists on behalf of the merchants are also crystal clear that merchants should not pay. In the end, in this terra incognita of who should pay the bill, the market reality is that probably around 20 percent of the cost space in Europe has to do with payments. The public sector—and it is probably also true here in the United States—and even the central banks, which are active in the debate as a catalyst, ignore that there is also cash in town. That is the most costly factor. But based on the behavior of central banks issuing bank notes and stuff like that, they have an interest in that. Mostly, the policy people are different people than those who run cash. I know the ECB tries seriously to get the costs of payments as a whole on the table, and to have to the debate of who really should in the end, from an efficiency perspective, pay the bill in society. We are talking about 2 percent of GDP and it is probably similar numbers in other communities.

I know some member states are reluctant to give the real data to the ECB. I have a Dutch background. We did deliver the CFO data, so external auditors send the real data to the Dutch Central Bank and the Dutch Central Bank being partner of the ECB.

We know pretty well—if you take segment by segment, consumers on the receiving end or sending side or SMEs, corporates, public administration—who is paying the bill on balance. They are definitely not large corporates. Our guess is it mostly is the SMEs in a lot of member states. If you talk about card networks, I think interchange will go down—that is the market trend. And the value-based interchange will probably go down even faster than transaction-based interchange. It is becoming more and more popular in Europe, if I listen carefully to the public sector.

**Mr. Anderson:** A question for Gerard. Going back to the security issue, we have seen one market failure in the case of EMV, where there have been repeated implementation vulnerabilities in the payment protocols. For example, there was disclosed in 2009 and published in 2010, the no-protocol attack whereby stolen cards can be used in stores without knowledge of the PINs. Now EMVCo. does not seem prepared to do anything about this and the various vendors pass the buck. In the meantime, individual banks say this is an industry problem not ours. So the big question is, Is this something that you are prepared to take on board and do something about or should it be left to some other body to coordinate that?

**Mr. Hartsink:** I cannot give comments on EMV as such. What I can give comments on is that the industry decided to implement EMV on the cards, on the POS terminals, and on the ATMs in Europe. Analyze the number—it is all over 95 percent. So that is the market reality. The ECB has a very clear position. They prefer that, on the issuing side—so not on the acquiring side—that banks only issue cards with an EMV chip, but no magnetic stripe anymore. It is a public policy. One of the colleagues of the ECB is still in the room. He can confirm that this is formal policy of the ECB.

The banks, however, were already reluctant in the decision of December, in the plenary last year, to accept this policy. Some banks do. They only issue cards with a chip. The story is “Yeah, but outside Europe you cannot use the chip.” Well, if you are able to fly to the United States, then you are probably also prepared to buy an additional piece of plastic. That is not the real cost of the issue compared with the ticket price you pay.

Of course, in Europe, we were—the ECB—also approached by consumer organizations from the United States. Will, over time, it no longer be possible for Americans coming to Europe using a card without a chip to get money out of the ATM or POS? Well, the policy of the euro system currently is only on the issuing side. The thinking is based on the enormous frauds, so it makes sense to do so also on the acquiring side.

The ECB is working together with Europol, the European Banking Authority, and the Commission on a paper about card-not-present fraud that will probably be released within one or two months, I expect. Europol is based in the Netherlands and I've seen serious cases of fraud. So, one way or another it makes sense for the United States to consider, if it continues with the plastic, also to implement the EMV chip. Another way of thinking is that maybe over time we will not need the plastic anymore, although I doubt it. Then at least, it should be done with the mobile.

**Mr. Ramamurthi:** As you go from thinking to getting things done, I have a two-part question for Ricardo. First, it is very impressive what you guys have been able to do in getting payments out in five seconds in some cases. As we look at similar systems in the United States, my question is on ID verification. I am familiar with CURP ID, which is a very impressive thing that you can actually verify online in Mexico. How valid is that, in terms of real-time authentication, along with voter's registration? That is part A of the question.

Part B is related to what you talked about in regard to being able to use mobile devices as a proxy, meaning the telephone numbers. My question is, Is the Bank of Mexico going to provide a directory service, whereby there is some kind of authentication layer? It kind of relates from part A to part B. If you can answer that.

**Mr. Medina:** Regarding the portioning of the payments system SPEI in Mexico, the Central Bank of Mexico very much regards and takes care of the center of the diagram. By the center of the diagram, I mean SPEI is at the center. The sender bank, or the sender participant, is on one side. On the other side is the receiving participant. The Central Bank is not involved very much in the relationship between the two participants and the clients. We leave that relationship—the ID, security, and all the issues regarding the client—to the banks and the receiver client with the receiver banks. We left it to the banks. The only thing we asked of the participants, the sender banks and the receiving banks, is that if they want to participate in SPEI, they must comply with the rules and should provide very high-quality service to their clients. We imposed rules for the velocity of payments, for some kind of security of the clients' identification. The ones who implement all these measures are the participants of SPEI. I appreciate your question very much. Thank you.

**Mr. O'Connor:** We are finishing on time. I will thank the panelists for their excellent presentations and I will thank the audience for their participation.

**Ms. George:** Let me thank all of you again. I want to close by thanking each of our authors, the discussants, the panelists we have had over the last couple of days, particularly those of you who have come a great distance to join us—my thanks for that. You have certainly added to the quality of our discussion here.

This conference has certainly exceeded my expectations. As we started yesterday, I knew that—because of the quality of the participants we have had—it would

be a good conference. But, as we look at the range of issues we have covered on this time frame, ranging from interconnectedness and innovation, thinking about the information content that is coming from consumers, thinking about the issues of privacy and security, all the way to the issues of segments of consumers, including the unbanked that we need to be thinking about in this space, issues of barriers. I found it very interesting as we try to balance this issue of innovation with what role—if any—public policy might play in that space, particularly as we see the emergence of very innovative and significant platforms coming into play around mobile payments and other aspects here.

Finally, for me personally, as I think about the role of the central bank, today has been most informative in terms of raising the issues about what role public authorities play in this space and how we think about this going forward.

We certainly have enjoyed a range of views, valuable perspectives, and insights. We have raised questions we can take away to research and think more about.