

# THE MIGRATION TO SEPA

Gerard Hartsink, chair of the European Payments Council, tells *Future Banking* how a concerted effort by the European Community on the scale of the introduction of the euro is needed to fully maximise the roll out of SEPA.

- SEPA has a market potential of up to €123 billion in benefits over six years.
- Since their launch in November, 2,607 banks have signed up to the SEPA direct debit services.

On 2 November the European Payments Council (EPC) launched the SEPA Core Direct Debit and SEPA Business to Business Direct Debit schemes. Banks throughout SEPA are gradually rolling out the services to their customers. All bank branches within the euro area must be reachable for SEPA Core Direct Debit by 1 November 2010 as mandated by the EU regulation on cross-border payments.

The EPC says the schemes launched successfully, with 2,607 banks, representing about 70% of SEPA payment volumes, having signed up. Of those, 2,366 banks are offering SDD Core and SDD B2B services.

The SEPA direct debit services allow customers, for the first time, to make and receive domestic and cross-border euro direct debit payments throughout the 32 SEPA countries (27 EU member states, Iceland, Liechtenstein, Norway, Switzerland and Monaco). Because the direct debit is a major payment instrument widely used in many euro area countries, the SEPA Direct Debit is a key element of the integrated euro payments market. From a consumer's perspective it is convenient not to have to deal with the consequences of late payments.

With SEPA Direct Debit, consumers know exactly when their account will be debited and its refund right gives complete

control over payments. At the same time, the schemes allow billers to collect payments on the due date. In this regard, the SEPA Direct Debit allows reliable cash-flow for businesses of all sizes.

The SEPA Business to Business Direct Debit in particular supports the intra-European supply chain management of companies while boosting trade across the internal market.

## The benefits of SEPA

Following the introduction of euro notes and coins in 2002, the political drivers of the SEPA process – the Economic and Financial Affairs Council, the European Commission, the European Parliament and the European Central Bank – called on the banking industry to bolster the common currency by developing a set of harmonised schemes and frameworks for electronic euro payments.

In a joint statement in May 2006, the European Commission and the European Central Bank said: 'The European Commission and the European Central Bank share a common vision for the single euro payments area and the process leading to its realisation. Both institutions are cooperating closely in this process and encourage the European banking industry and the other relevant stakeholders to create the technical conditions for the realisation of SEPA by the end of 2010.'

As the European public authorities have emphasised, SEPA is a huge opportunity for Europe as it strengthens the euro and facilitates trade across the internal market. It also holds a market potential of up to €123 billion in benefits over six years with a significant upside for bank customers.

The implementation of innovative and competitive SEPA payment services translates into efficiency gains for businesses and public administrations, while consumers can rely on a single set of euro payment instruments covering 32 countries.

The payments industry has made available the main building blocks of SEPA. In addition to the SEPA schemes for credit transfers and direct debits based on global ISO standards, a SEPA Cards Framework has also been agreed and is in the process of being implemented by banks, card schemes and card processors. At the same time, the European legislator has put in place the Payment Services Directive, which aims to establish a common legal framework.

The SEPA vision, however, will not be realised through the existence of high-quality schemes and standards alone. The EU monetary union did not materialise by distributing euro notes and coins to the market hoping that beloved national currencies would be enthusiastically abandoned. European integration is rarely carried forward by grassroots movements and SEPA is no exception.

## Realise the vision

SEPA was not designed as a demand-driven process. Bank customers did not ask for the euro or for current euro payment instruments to be replaced. Existing payment services are generally viewed to be efficient, secure and cheap. Not surprisingly, therefore, 18 months after the launch of the SCT, 4.4% of all euro credit transfers in the EU are based on the SCT scheme. The current rate

of SEPA market uptake is in line with expectations considering the average timelines required for the roll-out of other major EU integration initiatives. However, this figure demonstrates that the same public authorities that asked for SEPA must create the incentives needed to drive the migration of customers to the SEPA payment instruments.

Selling the benefits of the EU internal market and monetary union remains the responsibility of European institutions and governments. This is the time to demonstrate the political leadership that SEPA deserves. For the introduction of the euro, the relevant authorities carried out an implementation project that covered all aspects of the transitional period during which the national currencies and the euro were accepted.

Once a similar master plan for the roll out of SEPA is put in place, a smooth transition will happen. The EPC has urged the European and national public authorities to take the necessary actions. The recently published SEPA roadmap is a positive step in this direction.

To create a critical mass of SEPA payments it is crucial that public administrations lead by example. The public sector is a prime economic actor and accounts for up to 20% of electronic payments. Moving this volume to SEPA would trigger implementation by other market participants.

However, in light of the latest findings regarding SEPA preparedness of the public sector, the EC has stated that public administrations across the EU do not fully meet expectations.

In addition, public administrations should require the use of SEPA standards when procuring payments services allowing banks to deliver SEPA payments services to any public entity in its payment area. As a result, the public sector will benefit from increased competition in the euro payments market.

National governments should support migration to the SEPA Direct Debit by ensuring the continued legal validity of existing mandates under the new scheme. A mandate is completed by a customer authorising a biller to collect payments via direct debit. At the same time, the mandate includes the authorisation of the customer's bank to pay these collections.

As requested by the European authorities, a user-friendly and legally sound means of mandate migration has to be found. If necessary, legislative solutions must be implemented. Providing such solutions is a prime indicator of the commitment to SEPA demonstrated by EU member states.

Communication on the benefits associated with EU integration, including SEPA, remains a key responsibility of the relevant European institutions. The EPC has asked that the political authorities, in particular those in the 16 euro

from which point only the European payment instruments will exist.

The European Parliament supports this position and called on the EC to set a 'clear, appropriate and binding end date, which date should not be later than 31 December 2012, for migrating to SEPA products'.

The EPC also recognises the value of setting a deadline for migration. An end date for phasing out legacy euro payment instruments creates awareness, ensures planning security for all market

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countries including the EC, support a communication campaign to promote SEPA comparable in impact to what was done for the introduction of the euro.

**Work to deadline**

Political leadership is also required with regard to the ultimate goal of SEPA: replacing existing national payment services with SEPA payment instruments. A transformation process of this dimension must be transparent and predictable. At this point, the majority of concerned parties share the view that one or several end dates for migration to SEPA services have to be defined to maintain momentum.

The European Central Bank recently observed that corporations and public administrations still take a cautious approach towards SEPA implementation. To remove that trepidation, the ECB proposes setting a migration end date

participants and confirms the commitment to making SEPA a reality.

In the view of the EPC, there should be one migration end date for SEPA Credit Transfer and SEPA Direct Debit at European level. Mandating an EU-wide end date requires EU regulation. In this context it should also be kept in mind that migration to the euro would never have happened without a clear deadline for completion of the project.

The market is now awaiting recommendations of the European Commission on the most effective way forward in this matter. The SEPA programme will succeed based on continued co-regulation requiring the commitment of the public and the private sectors. This is the time to open the window of opportunity which SEPA represents for bank customers throughout the single market. FBA

**Gerard Hartsink**

Gerard Hartsink is the chair of the European Payments Council and is a senior executive vice-president at ABN AMRO Bank, where he is responsible for global transaction services and market infrastructures. He takes care of the relationships in the payments, cards and securities industries and with European institutions. He also participates in the governance of the following organisations: chair of CLS Bank, board member of LCH, Clearnet, convener of ISO 20022 Registration Management Group and board member of SWIFT.