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Marie Cheval
La Banque Postale
Fédération Bancaire Française

A long term and viable business model for the SDD

17th November 2010



Our aim is to make SEPA Direct Debit a success



The success of the SEPA depends on:

1. **Universality and efficiency**: all European banks must be reachable for the SEPA direct debit.
2. **Security**: the SEPA direct debit imposes a high level of security. All players must invest considerable amounts to insure security.
3. **Interoperability**: The universality of the SEPA direct debit involves a wide inter-operability which requires mutual cooperation and investments.

This is only possible if:
a viable and long-term business model is agreed.

Creditors are the first beneficiaries of the SEPA Direct Debit.

There are many reasons why the SEPA direct debit should be the preferred payment instrument for the creditors:

1. A simple, secure and efficient way to collect payments
2. The ability to determine the exact date of collection
3. The certainty of payment completion within a predetermined timeframe
4. The opportunity to optimise cash-flow and treasury management
5. Straightforward reconciliation of received payments
6. The ability to automate exception handling such as: Returned, Rejected, or Refunded Collections and Reversals
7. One payment instrument throughout SEPA for Creditors holding a bank account in the SEPA area
8. The opportunity to collect payments from Debtors through the use of a single payment instrument
9. The reduction of administrative costs

Capturing these advantages requires considerable investments and recurring costs for all banks

Debtor banks operate a minima the following tasks:

- Before the collection reception:
 - Set up of the SEPA Direct Debit application.
- From the reception:
 - Reception of the SDD collection sent by the Creditors banks (receiving collections and accounting from CSM),
 - Verification of Debtor details,
 - Check of the date of execution,
 - Storage of transactions until settlement.
- From the reception or date of settlement:
 - Check of Account Accessibility,
 - Check of non-global opposition to the SEPA Direct Debit service,
 - Check of non-objection to this Creditor,
 - Verification of non-opposition to this mandate,
 - Verification of the Identifier of the Creditor / the Unique Mandate Reference match.

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➤ On the date of settlement:

- Check of provision,
- Customer accounting,
- CSM accounting
- Storage of transaction in order to allow returns

➤ From the date of settlement or later:

- Inform the customer,
- The debtor bank may reject a collection prior to settlement either for technical reasons or because it is unable to accept the collection e.g. account closed, account does not accept direct debit...

What is the business model for the SEPA direct debit?

- Debtor banks support costs generated by the clients of creditors banks
- The SDD is an operation initialized by a payee to collect payments from the payer
- What is the business model ?
- Banks are in very different situations in Europe:
 - Some banks, as La Banque Postale, are retail banks: their clients are mostly individuals who are payers; for La Banque Postale, out of 10 millions clients, 95% are individual retail customers
 - La Banque Postale operates
 - On the creditor side: 18 millions of direct debits (9.2 Bn€)
 - On the debtor side: 268 millions of direct debits (400 Bn €)
 - Other banks are corporate banks: their clients are mostly companies who received the payment, who are payees

Alternative business model for the SEPA direct debit

- Today, in certain countries like France, the business model of debtors banks regarding direct debit is based on a MIF per transaction
- In the background document, the Commission suggests that only R-Transactions would justify a MIF.

Multilateral R-transactions fees based on technical default and/or insufficient funds is not appropriate. The SDD business model SEPA cannot rely solely on the shortcomings of the scheme that will, in addition, stigmatize the most vulnerable customers. Schemes based on MIFs applicable to R-transactions entail necessarily cross-subsidiation with other banking services or customers to finance normal direct debit transactions.

Alternative business model for the SEPA direct debit



- **Without A MIF on SDD, what happens?**
 - Should debtors banks as La Banque Postale subsidize creditors banks?
How is it possible?
 - Must debtors support all the costs incurred by creditors?
-> this would be socially unfair and economically inefficient!
 - What would be the incentive for debtors bank to promote SDD? And for individuals to use it?
- **Should we end up with bilateral agreements?**
 - With 5000 banks, the bilateral agreement solution involves more than 12 million contracts at European level.
 - Many small actors or new entrants would face tremendous difficulties to enter the market

Conclusion

- **The MIF in the SDD frame is an essential element of financial equilibrium of debtors banks**
- **The debate on MIF for SDD has become ideological due to the intense lobbying from a few big corporates.**
- **This ideological posturing can create major prejudices for retail customers who can become victims of radical decisions**
- **Under SDD, without MIF, debtors banks (with typically low income customers) will subsidize creditors banks (typically with corporate and affluent customers)**

It is urgent to stop ideological posturing and initiate a real economic and social debate.



Thank you for your attention