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FEEDBACK STATEMENT ON COMMISSION CONSULTATION ON SEPA

**(ANALYSIS OF RESPONSES RECEIVED TO
COMMISSION CONSULTATIVE PAPER ON
SEPA NEXT STEPS)**

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EXECUTIVE SUMMARY AND CONCLUSIONS

This report summarises the replies received to the Commission consultation paper¹ on 'SEPA Next Steps', which was published on 13 February 2006 on the Commission website. In this consultative paper, the Commission analysed the self-regulatory developments necessary for the realisation of SEPA and solicited comments from all stakeholders. To avoid confusion, it was decided to defer publication of the results until after agreement of the Payments Services Directive.

The Single Euro Payment Area (SEPA) should result in tremendous gains and potential savings for society and bring benefits to all stakeholders. The aim of this consultative paper was, without preconceived ideas, to explore ways to support, underpin and enhance the self-regulatory activities of industry. Whilst the preference is for market-led solutions, regulatory action is not ruled out where there is a risk of market failure that could put the economy wide benefits of the project at risk.

A large number of responses were received to the consultation – 69 in total with many detailed observations. A reasonably balanced representation of stakeholders responded to the consultation with a broad geographical distribution.

The Commission vision for SEPA as an integrated market for payment services subject to effective competition and providing European citizens and businesses with low-cost, efficient, modern and reliable payment services was very largely shared. A gap analysis comparing the vision and the results of the EPC was carried out. The important role of the ECB and national central banks was also highlighted.

Comments were then solicited with respect to 12 major topics or themes in the context of the GAP analysis. The replies received show that whilst there is a large degree of consensus on the vision for SEPA, there are broadly two different views on how best to ensure its realisation. At the risk of some over-simplification, one school of thought is formed by European banks and organisations where banks have strong influence; the second school of thought is represented by other stakeholders, such as users (consumers, corporates, SMEs), public authorities and independent payment service and technical services providers. The first school of thought is very largely satisfied with the current arrangements, whereas the second has reservations and considers that further change and improvement may be necessary to attain the full potential of SEPA.

¹ The paper can be found at http://ec.europa.eu/internal_market/payments/docs/sepa/sepa-2006_02_13_en.pdf. The original title of the paper was SEPA Incentives, but it was subsequently thought that SEPA Next Steps was a more appropriate title.

These contrasting views for SEPA realisation are broadly summarised in the table below.

Table 1: Summary of responses to SEPA Next Steps consultation

SEPA: 'A tale of two views'		
	European banks	Others
Governance	Banks know what their customers want and try to involve the relevant players, primarily at national level	Lack of involvement for users, especially corporates and technical services providers
Products	To be offered in competition	Lack of ambition by banks
Standardisation process	Open ISO-type procedure	Perception: exclusively banks
Future product improvement and innovation	Will emerge satisfactorily	Not guaranteed
E-invoicing	Yes but not now, only later	Needed now to add value
Cash and cheques	Repositioning needed to reduce costs to banks	Agreed with one exception, but with consideration for needs of some specific users
Implementation	Wait and see, ensuring consistency is main concern	Mandate implementation of schemes, at least for receiver capability (to ensure effective competition)
User adoption	Wait and see, but public authority adoption and communication needed	Offer better value to ensure SEPA product adoption. Communication needed.
Migration	Market driven process, but public authorities must play major role	Migration plan and milestones need to be spelled out for all stakeholders
Competition	Satisfactory	Level playing field is not ensured
Customer mobility	No need for action	Needs to be improved: banks should not own clients through lock-in, but earn them through good service
Processing	CSM Framework is sufficient	Additional measures needed to achieve competitive market for processing

1. INTRODUCTION

1.1. Background to consultation

This report summarises the replies received to the Commission consultation paper² on 'SEPA Next Steps', which was published on 13 February 2006 on the Commission website. In this consultative paper, the Commission analysed the self-regulatory developments necessary for the realisation of SEPA and solicited comments from all stakeholders.

The integration of the non-cash payments systems in Europe is the logical follow-up to the introduction of the euro. It is expected that the realisation of the Single Euro Payment Area (SEPA) will result in tremendous gains and potential savings for society and bring benefits to all stakeholders. An efficient single market for payment services will increase competition, facilitate new business opportunities, the realisation of economies of scale and foster specialisation and innovation. Because there are such large economic benefits, the realisation of the Single Euro Payment Area is also of political importance. SEPA was always seen as a market-led process which would be supported by regulatory action where necessary.

SEPA calls for the establishment of an integrated payment market. This requires the removal of all technical, commercial and legal barriers. The legal barriers have been addressed by the Commission proposal for a Directive on payment services in the internal market³. The technical and commercial barriers are being addressed by the banking industry through the aegis of the European Payments Council.

The aim of this consultative paper was, without preconceived ideas, to explore ways to support, underpin and enhance the self-regulatory activities of industry. Whilst the preference is for market-led solutions, regulatory action is not ruled out where there is a risk of market failure that could put the economy wide benefits of the project at risk.

The original deadline for replies was 31 March 2006, but for questions relating to competition in the cards area, this was extended to one week after the publication of the Sectoral Inquiry Report for Cards being carried out by the Competition Directorate General. However, since this was considered a relatively short period for replies, the deadline was subsequently postponed to early May. In total 69 responses were received.

² Cf. footnote 1.

³ http://eur-lex.europa.eu/LexUriServ/site/en/com/2005/com2005_0603en01.pdf

1.2. Deferral of publication of results of consultation

At the close of the consultation on the SEPA Next Steps paper, the Payments Services Directive was under intense negotiation in the Council and the European Parliament. Furthermore, at the same time, there was considerable other work being undertaken by the Commission in the payments area, e.g. in relation to anti-terrorist financing and the Competition Inquiry. Consequently, it was thought that if a further field of debate were to be opened up in relation to the results of the SEPA Next Steps paper, this could cause confusion and diversion, leading to possible delay in the adoption of the Payments Services Directive which was a top priority. For this reason, it was decided to focus on securing the successful negotiation of the Payments Services Directive and defer publication of the SEPA Next Steps paper until adoption has been agreed. In April 2007, parliament adopted with a large majority a Presidency compromise text for the Payments Services Directive to which ECOFIN had given unanimous agreement in March. The path to publish the results of the consultation and continue follow-up work was now clear.

1.3. Content of Incentives paper: Inter-linkage of topics

The consultative document contained 72 questions distributed over 12 main themes or topics. There were two initial, general questions seeking comments on the vision of the Commission for SEPA and the gap analysis carried out in the paper.

The twelve topics include governance, competition, innovation, early SEPA adoption and are very much interlinked, as is demonstrated below:

The creation of an integrated payments market calls for common standards and the establishment of a common payment schemes at European level. Since there is effectively a single standard setter and scheme at European level for a payment product (the European Payments Council), the governance of these arrangements takes on critical importance. How will innovation and product performance be achieved? Will users and non bank participants be adequately involved? If there is a single scheme, will there be effective competition? Furthermore banks may develop SEPA products but there is no guarantee that will be taken up by users. This calls for customer awareness and active marketing by banks. In a market driven process for SEPA migration, the new SEPA products will also need to be commercially attractive to users. In a market economy, profit potential drives innovation. So the financial implications and opportunities for banks engendered by SEPA are important. This leads to the provision of additional optional services (AOS).

1.4. Replies to consultation

In total 69 replies were received. These are reasonably balanced from both a geographical and a sectoral perspective. The geographical distribution of replies can be found in Table 2 below.

The distribution according to sectoral (i.e. stakeholder) group can be found in Table 3.

Table 2: Responses – Geographical distribution

Geographical distribution	Country	Number of responses
EU: euro area	Austria	1
	Belgium	2
	Germany	9
	Greece	1
	Spain	2
	Finland	2
	France	8
	Ireland	3
	Netherlands	6
EU: non-euro area	Czech Republic	1
	Denmark	2
	Poland	2
	Sweden	3
	United Kingdom	8
EU wide ⁴	EU-wide	12
Non-EU	Norway	1
	United States	5
	Global	1
Total		69

⁴ E.g. EU-wide industry or consumer associations.

Six different categories of stakeholder are identified: payment service users, public authorities, technology service providers, and three categories of payment service providers, namely: banks (including industry associations), non-banks (including card schemes) and processors. It is not surprising that the largest number of respondents are banks and that given the impact of SEPA on payment processing and information technology, there are a large number of responses from payment processors and IT vendors.

Table3: Responses – Sectoral distribution of stakeholders

Stakeholder category	Sub-category	Number of responses
End users	Consumer association	1
	Individual consumers	2
	Corporates	4
	Merchants	4
	SME association	1
Public authorities	Member States	6
	National central banks	3
	Competition authority	1
Technical & service providers	Technical providers/vendors ¹	10
	Service providers	1
Payment service providers	Banks (incl. representative bodies)	21
	Non-banks ²	6
	Processors	9
Total		69

¹ This category includes consultancy firms, it-vendors, terminal suppliers and standardisation organisations.

² This category includes schemes and scheme owners.

1.5. Methodology used to analyse and allocate responses

In general, replies to the consultation did not answer each of the 72 questions posed. Responses focussed on the topics deemed most important for the stakeholder. In order to prepare a systematic overview of the replies received for the purposes of analysis, it was necessary to breakdown each reply into a standardised format. All comments received in a response were consequently allocated to the relevant topic and, where possible, to a specific question. It was therefore necessary to structure replies in this way even if the original response did not strictly follow the question numbering in the consultation. Where a reply did no more than state general principles related to a certain topic, this was taken into account at the general level and not allocated to a specific question.

In this way it is possible to analyse stakeholder responses on per question per topic⁵ basis. This is provided in the factual analysis below. Where possible, questions are treated separately. However, in some cases there were a number of questions raised under one number where answers could not be summarised usefully. On the other hand, for a number of topics, it proved not to be very useful in practice to treat each individual question separately. Here the replies to the main subtopics are summarised and aggregated as much as possible.

For the purpose of transparency, the number of responses analysed per topic and question is always given (in brackets). The main reactions are then summarised per topic and where diverging positions are encountered, an overview is given of the different positions indicating for each position the number of replies per stakeholder group. After the quantitative overview, a qualitative summary is then given of the arguments made.

2. GENERAL QUESTIONS ON VISION AND GAPS

The approach taken in the consultation paper was to compare the vision of the Commission for SEPA with the likely results of the EPC self-regulatory process to realise SEPA. This comparison resulted in a number of gaps and gave rise to 12 specific areas or topics for consultation. As already indicated above, this approach gives rise to a certain overlap – both in the material presented in the consultation paper itself and in the subsequent answers to the questions.

Some replies focused entirely on the gap analysis and gave comments on the gaps that could also have fed into specific issues or recommendations. We have therefore allocated these comments to one of these issues or recommendations, but have also provided an overview of the general agreement/disagreement with the vision and gaps below. A number of comments also expressed disagreement expressed with the vision and the gap analysis.

⁵ Only the following questions: Question 6 (conditions for non-bank entry into EPC); Questions 10, 12, 30 and 32 (unattractive SEPA product features); Question 21 (scope of regulating standards), Questions 35 and 36 (estimates of migration cost); Question 39 (uncertainty affecting migration); Questions 46–47 (other measures to ensure future improvement of schemes); and Question 54 (competition in processing); are not treated explicitly in this document. All other questions are specifically referred to in this document, although some questions have been grouped together because of overlap in either the questions and/or the answers provided.

2.1. Vision for SEPA

Thirty-two responses expressed explicit general agreement with the vision for SEPA (Question 1). This includes some responses with criticism on specific aspects. Ten replies presented strongly negative comments.

Table 4: Positions with regard to SEPA vision

	Support SEPA vision	Criticism with no support
Users	6	
Public authorities	4	1
Technical providers	6	2
Banks	8	6
Non-banks	4	
Processors	4	1
Total	32	10

Twenty-seven responses did not provide comments on the vision, but commented only on the topics below. 86% of the respondents (59 out of 69) therefore supported the vision or had no comments critical to the vision.

The negative comments which expressed no support for the SEPA vision outlined in the consultative paper could be broken down into four main themes:

- No need to involve users in the self-regulatory process. (1 national central bank)
- The definition of SEPA as determined by the self-regulatory process needed to be accepted as such and the separate vision of the Commission for SEPA was explicitly damaging to the self-regulatory process. (5 banks, 1 technical provider)
- SEPA will lead to deterioration in high performance markets. (1 bank, 1 processor)
- A policy aiming at any repositioning of cash is misguided. (1 service provider)

All of these comments surface again in the twelve topics below.

2.2. Gaps

There were 24 replies that explicitly commented on the Gap Analysis (Question 2). Most replies commented only on one or a few of the identified gaps. It is therefore difficult to summarise these responses. However, there were two tendencies among these replies.

On the one hand, non-banks generally agreed first to the gaps identified, particularly the lack of stakeholder involvement in the process so far and secondly, the lack of ambition for the SEPA project as it now stands. These two issues return below.

Second, a number of banks pointed out that the gap analysis itself jeopardises the self-regulatory nature of the SEPA process by creating doubts about its scope, timelines and the effectiveness of the project. This comment also re-appears later and we will return to it below.

An overview of the response rate per stakeholder group per topic is given below.

Table 5: Response rate per topic per stakeholder group

	Governance	Products meet vision	Implementation	Standard setting	Competition in processing	User adoption	Migration cost
Users	0,83	0,83	0,58	0,58	0,50	0,83	0,67
Public authorities	0,80	0,80		0,70	0,30	0,60	0,80
Technical providers	0,91	0,64	0,64	0,45	0,73	0,64	0,82
Banks	0,81	0,57	0,52	0,38	0,29	0,67	0,86
Non-banks	0,67	0,43	0,38	0,33	0,30	0,27	0,17
Processors	1,00	0,78	0,78	0,67	0,89	0,44	0,78

Table 6: Response rates per topic per stakeholder group

	Future improvement	Competition cards	Competition other	Cash and cheques	Mobility	E-invoicing
Users	0,50	0,58	0,33	0,50	0,50	0,42
Public authorities	0,60	0,50	0,20	0,50	0,60	0,70
Technical providers	0,64	0,55	0,36	0,45	0,36	0,36
Banks	0,33	0,43	0,10	0,48	0,38	0,62
Non-banks	0,15	0,21	0,20	0,25	0,06	0,11
Processors	0,44	0,67	0,22	0,44	0,33	0,33

3. GOVERNANCE

3.1. Summary of replies (59⁶)

This topic generated the highest response rate (85%). It is a large topic covering a number of different areas. Most responses addressed only part or some of the questions raised.

The answers focussed on the following two issues:

- (1) Has there been sufficient stakeholder involvement so far?
- (2) Are there suggestions for improvement?

These two issues will be treated separately for users and non-banks. The topic of governance then has different elements:

- user consultation (demand side)
- non-bank involvement (supply side)
- project management (self-regulatory)
- role of public authorities (regulatory)

All responses addressed the first two elements: user consultation and non-bank involvement.

A few responses commented on the project management of the self-regulatory process and aspects of supervision or regulatory conditions to be provided by public authorities.⁷

⁶ Number of responses shown in brackets.

⁷ Calling on public authorities to set clear requirements in different areas, removing uncertainties about scope and pending regulatory issues and act as overseer over Scheme Management Entity. Two respondents suggested the establishment of a Social Forum for Payments bringing together all stakeholders aiming for efficiency improvements in the payments system.

3.2. Stakeholder consultation in general (59)

Table 7 summarises the reactions per stakeholder group on the question whether stakeholders feel sufficiently involved in the SEPA process (Question 4).

Table 7: General satisfaction with stakeholder consultation so far (Question 4)

Stakeholder category	Satisfied	Dissatisfied
Users	0	11
Public authorities	4	3
Technical providers	1	9
Banks	13	6
Non-banks	1	3
Processors	3	5
Total	22	37

This table shows a marked difference in perceptions of the need for consultation of stakeholders other than banks. Thirty-seven respondents, originating from all stakeholder groups, but mainly users, say they have been involved both too little and too late in the process. On the other hand, 22 respondents say stakeholder involvement took place in so far as necessary and possible. However, almost two-thirds of these replies came from banks with none from users.

Outside the banking community there appears to be considerable dissatisfaction with stakeholder involvement in the SEPA process so far. This has both a supply side and a demand side dimension;

3.3. Improve stakeholder involvement/Best practices

We consider non-bank involvement and user consultation separately.

3.3.1. Non-bank involvement (29)

Table 8 summarises the reactions per stakeholder group on the question whether a change of governance of the SEPA process is needed to involve non-banks in the EPC work (Questions 5–6).

Table 8: Assessment of non-bank involvement

Stakeholders	Yes change needed	No change needed
Users	3	0
Public authorities	3	2
Tech providers	6	1
Banks	4	3
Non-banks	2	1
Processors	4	0
Total	22	7

Technology providers complain that they are not sufficiently involved in the development of SEPA standards and that they have no direct access to the information needed to develop adequate services. This is regrettable because technology providers have considerable practical knowledge and expertise to contribute. It is also regrettable loss because the development of solutions for banks may be delayed by late and little availability of necessary information. One bank representative organisation suggested that the views of non-banks would be taken on board following implementation.

A range of solutions were proposed to combat the lack of adequate consultation. These ranged from:

- making publicly available the documents and deliverables of the EPC;
- engaging in closer consultation;
- providing affiliate or full EPC membership.

One technology provider⁸ considers it unproductive to have a common organisation for providers with different responsibilities.

⁸ Technology providers can now access information through the vendor-site of SWIFT.

3.3.2. User consultation (50)

Table 9 summarises the reactions per stakeholder group on the question whether improved user consultation by the EPC is needed (Questions 5–7).

Twenty-seven respondents indicated the need to improve user involvement in the self-regulatory process, the majority of these came from users and technology providers. Twenty-three respondents, including particularly banks and public authorities, indicated that user consultation so far was sufficient.

Table 9: Responses recommending change in user involvement

Stakeholders	Recommending change	No need for change
Users	11	0
Public authorities	2	5
Technical providers	6	1
Banks	4	13
Non-banks	2	1
Processors	2	3
Total	27	23

3.4. Suggestions for improvement (Question 3)

Two problems are identified which find an echo in the suggestions made for resolution of the governance problem. First, a distinction needs to be drawn between the design phase and the implementation phase. An often repeated argument was that in the design or standardisation phase, there is no need for user involvement: it is up to supply side parties to agree. This is also supported by a number (but not all) of technology providers and processors. On the other hand, however, the low degree of involvement of non-banks in the design phase does not inspire great confidence among stakeholders that a higher degree of involvement will be granted at a later stage.

The current state of play is, however, that there are no feasible nor realistic alternatives for the standards, schemes and frameworks established by EPC. Therefore, most suggestions are for greater user involvement in the implementation phase and the future improvement of the schemes and frameworks.

Suggestions for improving user involvement in the next phase range from:

- establishing a public forum to manage SEPA implementation and migration;
- establishing a SchemeCo alongside the EPC with direct involvement of public authorities and/or stakeholders; or
- opening up the EPC structure to user participation, improving transparency.

Table 10: Suggestions for improving non-bank stakeholder involvement

Stakeholders	Public forum	SchemeCo	Open up EPC
Users	5	1	4
Public authorities	1	0	1
Technical providers	3	0	3
Banks	3	6	1
Non-banks	1	1	0
Processors	0	0	2
Total	13	8	11

3.5. Who should do what? (Question 8)

3.5.1. Non-bank involvement in EPC processes

The following comments were made supporting greater non-bank involvement in the EPC standardisation/design process for SEPA:

- Create a category of affiliate membership for non-banks in the EPC (with or without voting rights);
- Allow participation of (independent) processors in relevant discussions;
- Permit small non-bank players to access necessary information;
- Make information publicly available for users, technology providers and non-banks;
- Involve independent processors in the decision-making process.

3.5.2. Commission role

Suggestions were also made that the Commission (and ECB) should take a more active role in securing non-bank involvement as follows:

- EPC governance should meet clear criteria defined by EC;
- EC should recommend a harmonised user consultation approach;
- EC organise a public forum for SEPA monitoring, implementation, communication;
- ECB or Commission must oversee and chair a reinforced consultation process.

4. PRODUCTS MEET VISION (49) AND USER ADOPTION (43)

There was a high response rate to these topics. Replies are summarised below.

In the consultative paper, Questions 9–15 touched on different aspects of whether SEPA products will meet the vision, and Questions 29–33 dealt with user adoption. It is clear from the responses that the key driver for user adoption is product service and price level. There are few other elements that are considered as decisive as attractive products for user adoption.

Four main factors are mentioned in the responses to the consultation (Question 29). These are analysed in Table 11 below:

- (1) User adoption should be market-driven by providing users added value through the new SEPA products (31)
- (2) The implementation and use of SEPA products should be mandated (5)
- (3) Governments should act as early adopters (25)
- (4) Communication and user education is necessary (18)

Table 11: Factors influencing user adoption

Stakeholders	Market-driven	Mandating	Authorities to adopt early	Communication
Users	9	0	2	2
Public authorities	3	2	4	2
Technical providers	8	0	3	1
Banks	3	3	14	13
Non-banks	3	0	1	0
Processors	5	0	1	0
Total	31	5	25	18

4.1. Will SEPA products be attractive? (39)

Table 12 summarises the replies to the question whether the SEPA products will be attractive (Question 9). While banks predominantly think the new products will be attractive, users thought not.

Table 12: Will products be attractive?

Stakeholders	Yes	No
Users	0	8
Public authorities	0	5
Technical providers	0	4
Banks	11	3
Non-banks	2	1
Processors	2	3
Total	15	24

4.2. Standard interfaces/forms for users

There were 18 responses to Questions 11 and 13 about the need for standard customer interfaces and standard forms for SEPA payment instruments. The responses are summarised in Table 13.

While nine respondents considered it necessary, nine also considered it unnecessary to develop standard user interfaces. Interestingly, the distribution over stakeholder groups is almost identical.

Table 13: Need for standard user interfaces/forms

Stakeholders	Yes	No
Users	4	3
Public authorities	1	1
Technical providers	2	2
Banks	2	2
Non-banks	0	0
Processors	0	1
Total	9	9

Although user interfaces are considered by some to be in the competitive space, this does not exclude the possibility that there should be standards prescribing the content of the messages generated from a user interface. These standards exist almost everywhere at national level. The Schemes require certain data elements to be provided by users and the EPC mentions that the UNIFI XML standards are recommended for the customer to bank sphere. These standards cannot be forced upon users that have no automated administrative processes such as most consumers and some SMEs. Proponents of standardised user interfaces and standardised forms argue that standardisation improves STP by reducing errors and allowing economies of scale in imaging processing while at the same time permitting clients using paper instruments to also benefit from interoperability at European level. Opponents fear that when SEPA standards are applied to paper based instruments, there is a risk of 'dumbing down' or even encouraging the use of paper instruments. Few views were given on the question whether SEPA forms should be developed for paper instruments. Three responses indicated that this was desirable and four replies were negative, among which three users.

4.3. What will happen to non SEPA products? (17)

Seventeen responses were received to the question what will happen to existing domestic products that cannot be provided within the scope of the SEPA schemes and framework (Question 14).

Three respondents replied negatively to this question stating that there was a need for a clear deadline after which non-SEPA compliant products would have to be phased out. It is however, not entirely clear if this only applies to payment instruments which fall within the scope of EPC work.

An important argument supporting the continuation of non-SEPA products was that customer choice should not be reduced by forced phasing out and that there should be room under the SEPA schemes to provide services that meet local requirements. Several of the other 14 responses stated that cheques and e-purses would remain in use domestically as there was no alternative for them.

4.4. Mandate minimum service level? (14)

One way of ensuring a high enough SEPA service level is for the regulator to mandate a minimum service level. This was the issue raised in Question 15. However, only two respondents supported such an approach. One Member State replied that a thorough cost benefit analysis was required before mandating a minimum service level.

Most replies to this question were negative, generally invoking the following arguments:

- A minimum service level is either too low or too high and does not add value;
- It creates an entry barrier and reduces choice. Rather, it has to be ensured that customer has choice and the information needed to choose.

4.5. Should public authorities act as launching customers? (32)

Table 14 summarises the responses to Question 31 which asked whether public authorities should help launch SEPA by being early adopters of SEPA products.

Twenty-three respondents are positive about the role for public authorities as early adopters of SEPA products. Two public authorities even go so far as to say that regulatory intervention is necessary to force governments to use SEPA product, because this will effectively set the standards and their experience in doing so is positive.

The counter-arguments are generally that user adoption in a market-driven approach can only take place on the basis of a clear and good value proposition for the customer. The vast majority of banks (14 out of 15 respondents) clearly consider early adoption by public authorities as desirable whereas public authorities seem to differ (four out of six oppose early adoption)

Table 14: Should public authorities be early adopters?

Stakeholders	Yes	No
Users	2	1
Public authorities	2	4
Technical providers	3	2
Banks	14	1
Non-banks	1	0
Processors	1	1
Total	23	9

4.6. Communication on SEPA (21)

There is a clearly identified need for communication (Question 33) but views are again divided on whom should do what. Fifteen respondents (of which 13 banks) believe this is an important task for public authorities whereas six replies consider this should be undertaken by banks.

Table 15: Need for Communication by public authorities and by banks?

Stakeholders	By public authorities	By banks
Users	1	1
Public authorities	1	2
Technical providers	0	1
Banks	13	2
Non-banks	0	0
Processors	0	0
Total	15	6

4.6.1. Messages for communication

Respondents indicated that SEPA Communication should address the following aspects:

- Changes only due to European harmonisation would not be welcomed.
- Prices becoming transparent will be problematic.
- Expectations should not be raised in some countries since it may not be possible to immediately improve the customer experience.
- Consumer education should aim mainly to promote competition, pointing to the removal of barriers and better transparency.
- A clear timetable should be communicated, e.g. a D-Day for corporates.
- The impression should be avoided that SEPA is only for the benefit of big banks.

4.7. Conclusions

This section addressed two main issues: whether SEPA products will meet the vision and their adoption by users. The conclusions would seem to be:

- Views diverge on whether SEPA products will meet the vision. Most banks argue that on the basis of the EPC schemes, banks will offer good products. Competition will force them to maintain existing service levels. On the other hand, according to others the EPC schemes show a lack of ambition and exclude the possibility of offering customers a better and more compelling product offering⁹.
- Mandating a minimum service level will not be successful according to most respondents.
- The main driver for user adoption is the fundamental commercial attractiveness of the SEPA products offered by banks on the basis of the schemes and framework developed by the EPC.
- The two other main drivers are: the role of the public sector/government as an early adopter and the need for a proper SEPA communication strategy.
- Public authorities should stand ready to be early adopters according to mainly, but not exclusively, bank respondents. Others argue that the government should follow the logic of the market place, i.e. only adopt SEPA products that offer better value.
- Communication is necessary according to most respondents to make SEPA a success. Communication should be well-targeted and any impression of adding cost without adding value should be avoided. A few commentators warned that no false expectations should be raised. All stakeholders must be involved to make SEPA a success, but that does not mean that all stakeholders need to encounter major changes in the user experience. (For example for most consumers, change should not be more than starting to use IBAN and further migration should be as seamless as possible. See also section on migration below).

⁹ The EPC has on frequent occasions made the point that the EPC schemes only establish minimum performance levels for SEPA products.

5. THE ROLE FOR PUBLIC AUTHORITIES IN STANDARD-SETTING

5.1. The desirability of regulating standards (31)

There was widespread agreement that public authorities should not regulate standards (Question 22). Twenty-six replies opposed public authority standard-setting. By contrast, only five respondents favoured regulation. Furthermore, of the five opponents, two supported regulation on a conditional basis and one limited its application to data protection and security issues.

Table 16: Should public authorities regulate standards?

Stakeholders	Regulate	Don't regulate
Users	2	4
Public authorities	1*	4
Technical providers	1*	3
Banks	0	9
Non-banks	0	2
Processors	1*	4
Total	5	26

* conditional or limited support

Nevertheless, there was support, even among parties opposed to regulation, that public authorities (in addition to their role in promoting adequate governance) should ensure that the standard developing process met the requirements of openness, transparency and accountability by:

- recommending standards,
- starting to use them as a public authority and
- requiring business relations to use them.

Nine respondents stressed the importance of ensuring that the standards used for SEPA should be (or be compatible with) global standards (e.g. ISO, UN-CEFACT) so that Europe would not be 'screened off' from the rest of the world (Question 23).

5.2. Discussion of the responses

As a preliminary comment when assessing responses, it is useful to have a fairly clear idea of what is meant by standardisation¹⁰. While a few responses seem to assume that public authorities would take on the role of developing standards, this can only be undertaken in very rare cases. The information needed to propose useful solutions is generally not (or not easily) available to public authorities. Standard development should be carried out by the relevant stakeholders, because that is where the expertise lies and yields the best prospects for successful implementation. Furthermore, it can be argued that if a standard is made mandatory for market parties, and if stakeholders are apparently unwilling to implement the mandated standard, then the value-added of compulsion is hard to see.

It is therefore not surprising that most respondents agree that mandating standards is not the right way forward. Nevertheless, there may be a couple of limited or specific areas where public authorities can play a positive role in standard implementation. Mandating the implementation and use of standards could be useful for:

- security and data protection;
- ensuring a competitive playing-field for processing (see below);
- mandating the SEPA data model to guarantee reachability (e.g. mandate the ability to receive SEPA Credit Transfers and Direct Debits) to guarantee a competitive playing field in offering services; and
- to ensure migration by users (e.g. mandate IBAN).

¹⁰ According to European law a standard is only established by one of the European Standard Organisations (ESOs). All others are called technical specifications. In practice, however, interoperability requires standards. Generally standards for interoperability are high level compromises that bring together different communities with different systems and business processes and make them interoperable. Technical specifications are generally left open to be developed according to the specificities of every individual participating system. Standardisation is needed to give users of systems the possibility to more easily choose between different systems and that will generate more competition.

6. IMPLEMENTATION BY BANKS (40)

Question 16 tackled the issue whether self-regulation will lead to successful implementation of the SEPA schemes and frameworks by banks. The results are presented below:

Table 17: Will self-regulation lead to implementation by banks?

Stakeholders	Yes	No
Users	1	4
Public authorities	2	1
Technical providers	1	5
Banks	4	2
Non-banks	2	0
Processors	3	2
Total	13	14

Opinion was almost evenly balanced albeit different in its composition. Thirteen respondents (including nine payment service providers and processors) are convinced that the self-regulatory approach will result in successful implementation. Against this, 14 respondents are not convinced, of which five are technical services providers and 4 are users.

Closer analysis reveals that the answers to this question are to some extent ambiguous, since based on the same reason, different stakeholders came to different opinions. For example, some stakeholders argued that self-regulation would be successful because *most* banks would implement the SEPA standards. On the other side, some said that self-regulation would not be successful, because not *all* banks would implement, or some banks would not implement *in time*. Finally, others had a clear-cut view and argued that there is no alternative to self-regulation or that the alternative would destroy value.

On Questions 17–20 whether the schemes and framework¹¹ should be mandated, there was a majority opposed.

¹¹ SEPA Card Framework.

Table 18: Should the SEPA Rulebooks and the SCF be mandated?

Stakeholders	Yes	No
Users	2	1
Public authorities	2	5
Technical providers	3	4
Banks	3	2
Non-banks	0	3
Processors	2	2
Total	12	17

The arguments are as follows:

For mandating:

- Users will be unable to determine whether a payment service provider is SEPA compliant, therefore from a certain point in the future, SEPA compliance will have to be made mandatory.
- To ensure a level playing-field, at least receiver capability should be mandated, but preferably the timing should be mandated, so that there would not be a first mover disadvantage.

Against mandating:

- Imposing the current timelines goes at the expense of offering good value to end users.
- Forcing all payment service providers to become scheme compliant, may result in a reduction in competition because they may be forced to abandon existing product offerings.

7. REDUCTION OF MIGRATION COSTS FOR BANKS AND USERS (49)

There was a very high response rate to this topic which is indicative of its importance for stakeholders. The topic is also manifestly linked with user adoption and implementation by banks. After the implementation of the schemes, SEPA products need to be developed and marketed by banks. User adoption should then take place resulting in user-migration from existing products to SEPA products. Over time, payment service providers too will be able to migrate to SEPA payment systems and they will no longer be forced to process all their payments in the domestic ACH. Given the economies of scale inherent in payment processing, this should be advantageous to banks. So the SEPA schemes and frameworks will allow banks to migrate payment volumes. However, the difficulty is that if users do not migrate en masse, payment service providers will be left using dual payment processing infrastructures thereby duplicating costs and experiencing a first-mover disadvantage compared to payment service providers who choose to defer adoption of SEPA schemes and framework to the very last.

7.1. How to minimise migration cost?

This difficulty was flagged in Questions 34 and 37. Several respondents mentioned the need for open standards to be available in time and the need for effective competition to reduce migration cost. The first is particularly important for banks, the second is particularly important for users, to drive down cost. Open standards and effective competition are discussed in Section 8.

There is a tension between on the one hand, the cost-reducing effect of leaving it to the market to decide when to adopt a product and on the other hand, creating certainty by setting deadlines. The benefit of leaving things to the market led ten respondents to argue in favour of flexibility on the timelines and a gradual approach. This allows actors to phase-in migration with natural investment cycles so that incremental cost is (very) low. Against this 16 commentators argued for defining a clear migration timetable or calendar.

Table 19: Should a clear migration timetable be defined?

Stakeholders	Leave it to the market	Set calendar
Users	1	3
Public authorities	1	2
Technical providers	3	2
Banks	3	5
Non-banks	0	1
Processors	2	2
Total	10	16

Implementation and migration should be closely monitored by public authorities according to six respondents. (Questions 40 and 42) For this a detailed roadmap with clear milestones would have to be established. One respondent mentioned this would be useful, but only if combined with sufficient powers of enforcement to correct things should the need arise. Two replies favouring the establishment of a calendar, expressed the need for setting clear deadlines for phasing out non-SEPA compliant infrastructures.

Considering the fact that the lead times or investment cycles were estimated at a minimum of 2 years and a maximum of 7 years (Question 41), it would seem useful to provide conversion solutions between existing domestic, and the new SEPA, instruments and formats. Five respondents (four tech providers and one Member State) explicitly supported this approach. Conversion services could be provided by banks or processors. Only one respondent objected to this solution, arguing conversion solutions could prevent effective competition.

7.2. Should migration be compelled?

It is a general principle of a market economy that users should not be compelled to use a particular service. There seems to two ways to encourage user migration:

- (1) Encourage them by offering a new and better value proposition (a good approach to early adopters).
- (2) By migrating them invisibly towards the new standards, with as little change as possible (a good approach for laggards).

7.3. Mandating IBAN and BIC (22)

Mandating the use of IBAN and BIC (Question 38) is problematic, since they add little value compared to the behavioural adjustment required. In particular, obliging slow-moving users to adopt IBAN and BIC for making existing national payments will not be perceived positively. The question is therefore important.

Table 20: Should there be mandatory use of IBAN and BIC?

Stakeholders	No mandate	Mandate only IBAN	Mandate IBAN & BIC
Users	2	2	1
Public authorities	2	3	2
Tech providers	1	0	4
Banks	1	0	2
Non-banks	0	0	0
Processors	0	1	1
Total	6	6	10

The responses also revealed that IBAN is considered user unfriendly, because it is generally longer than BBAN. BIC is also not generally used domestically. A few responses point out that IBAN is somewhat error prone (because of the remaining national differences). One respondent therefore proposed that banks should provide an IBAN check.

The future improvement of IBAN is considered necessary by some respondents, but this needs to be examined in conjunction with longer-term questions relating to customer mobility.

7.3.1. Direct debit (mandate handling)

The SEPA direct debit and mandate handling figured strongly in response to Question 32.

At least nine respondents commented on specific problems that could be incurred in moving from existing national direct debit arrangements to the new SEPA direct debit. These problems were primarily and almost universally identified by stakeholders from a single Member State. Their comments, which seem to have been carefully coordinated, focussed on the following aspects of the SEPA direct debit migration:

- It was essential to maintain the legal validity of existing mandates
- This would make a substantial contribution to reducing migration costs, as if creditors were required to obtain new duly signed mandates from all current customers, this would incur major operating costs;
- Corporates needed the option of archiving an electronic version of SEPA Direct Debit paper-based mandates. A legal framework to allow this was required.

8. COMPETITION IN PROCESSING

The majority of responses to this topic in Question 25 concentrated on the cards market. Only two or three respondents discussed the problem of competition in the market for credit transfers and direct debits. EBA STEP2 is the only available processing solution with 100% reach, but if 100% reach is a requirement, than competition may be ruled out because of network externalities, high fixed costs and scale economies. There was a substantial majority favouring the separation of payment scheme and processing infrastructure.

8.1. Separation scheme from processing

Table 21: Views on separation of payment scheme and processing infrastructure

Stakeholders	Support	Oppose
Users	2	
Public authorities	2	
Technical providers	7	
Banks	3	1
Non-banks	1	2
Processors	4	3
Total	20	4

Although the principle of separating scheme from processing is widely supported and also in fact part of the SEPA Cards Framework, a number of respondents express the need to clarify further what this separation should in practice entail. They fear that a vague principle requiring separation does not ensure a level playing field for competition and may allow certain, and particularly dominant, players to take advantage of the situation.

The conditions required for the separation of scheme and infrastructure, to deliver effective competition are:

- Open and publicly-available standards
- Governance separation
- Representation in management
- No cross-subsidisation/financial ties between different activities
- Independent certification
- Timely availability of processing critical information/changes in requirements
- Settlement arrangements
- Routing choice principles (banks are free to choose routing, but if they disagree, the bank that is liable for execution decides.)

8.2. Technical standards

The subject of technical requirements was examined in Question 26. All agree that interoperability is crucial for competition. For this open standards are required. However, views diverge on whether standards should be mandatory. While most responses also agree to the need to separate scheme from infrastructure, opinion is also divided whether this separation should be mandatory.

Most stakeholders (18) favoured additional measures in this field whereas only two were opposed. Twelve stakeholders favoured mandating technical standards mandatory but 13 were explicitly opposed.

The main argument for mandating technical standards was that dominant players needed to be compelled to open their standards to other processors. Two counter arguments were mentioned: first, this is premature and there are as yet no standards to be mandated; second, mandating technical standards by regulation introduces adverse risks for innovation and future development.

However, in the area of security requirements, there was clear support for the establishment of minimum standards by public authorities to ensure a level playing field. There was a concern security requirements could be abused and deployed as a means of protectionism.

In this context, it should be noted that the possible need for terminal certification was specifically mentioned in Question 28. The great balance of commentators favoured harmonisation by a nine to two majority. The minority said that certification should be left to the market through EMV.

8.3. Additional measures to ensure interoperability

8.3.1. Transparent and negotiable pricing (not cost-based pricing)

Eight stakeholders favoured transparent and negotiable pricing (Question 27).

8.3.2. Non discriminatory access to clearing and settlement mechanisms/non bank entry

In general, those respondents commenting supported non-discriminatory access to clearing and settlement mechanisms and non-bank participation (eight stakeholders). One bank association remarked that for a credit transfer, clients needed to be offered accounts and that the management of settlement risk was usual business practice for banks.

8.4. Conclusion

While there was not a high response rate to these questions, the replies received tended to be long and detailed. Not surprisingly, most comments were received from processors and technology providers.

There seems to be broad agreement on the envisaged end game¹² for processing in SEPA, but there two opposing views on how to get there: some say the market is taking care of the matter, has already done so in the past and will solve all remaining issues; while others hold that a level playing field in the market calls for regulatory intervention (e.g. separation, mandating technical standards and other conditions).

There is agreement that payment service providers should not face limits in functionality by working with different operators. It is essential that interoperability allows banks to process payments at the most efficient location while settlement takes place with maximum reach.

Detailed reading of responses shows resistance to interoperability seems to stem from three groups:

- parties wishing to lock-in their clients,
- parties wishing to see fast migration to a single set of instruments and formats and
- providers that already offer interoperable services.

9. FUTURE IMPROVEMENT (33)

There appears to be two schools of thought on how to ensure the future improvement of SEPA payment instruments (Question 44). One school maintains that innovation should be left to the market, so that individual banks driven by the profit motive will innovate. The other school says there is a need for structuring the market by means of a Scheme Management Entity because payments are a network industry and there needs to be industry agreement on how product innovation will take place in the cooperative space. Responses are analysed below:

¹² However one respondent made some interesting and insightful comments about expected economies of scale in processing, as follows:

- 1) Reduction to 3–5 competing processors does not automatically lead to lower processing cost, because in current situation processors have very little excess capacity. In a competitive market, processors will need to have larger excess capacity, which will increase cost.
- 2) There is no proof of endless economies of scale in processing.
- 3) Some economies of scale may be lost because of unbundling of currently combined processing at national level.

Table 22: How to achieve the future improvement of SEPA schemes/ products

Stakeholders	Leave to market	SME to drive innovation
Users	1	5
Public authorities	3	3
Technical providers	2	5
Banks	2	5
Non-banks	2	1
Processors	3	1
Total	13	20

In principle and ideally, the profit motive should drive innovation: by implementing new technologies and adjusting supply quickly to new preferences, competitors can gain market share and thereby ensure innovation and improvement over time. However, since in a network industry competitors need each other to provide services to their clients, innovation can only be successfully implemented by an individual payment service provider to a limited extent. Schemes are developed for ensuring the interoperability of payment instruments schemes are devised that set rules so that competitors can provide services to a larger extent.

Interestingly, most parties in the first school of thought are involved in the cards business, where there are competing schemes. Most parties in the second school are more interested in the development of the SEPA schemes for credit transfer and direct debit. Competition takes place at different levels in these two markets. In card payments there is competition between schemes (inter-scheme competition) and competition between issuers and acquirers within a scheme (intra-scheme competition). Whereas for the SEPA credit transfer and direct debit, there is only intra scheme competition, because there is only one scheme for credit transfer and one scheme for direct debit.

While the question may be posed whether inter-scheme competition is optimal in cards, it is a highly academic question. Even if there is a clear conclusion on the undesirability of inter-scheme competition, it is hard to see how this can be brought to bear on the market reality with several competing schemes. The outcome of the debate is all the more uncertain, since it leads to the second problem of how to guarantee future improvement under intra-scheme competition when there is one scheme only.

9.1. Innovation without inter-scheme competition

Future improvement is particularly a problem in the situation of one scheme, because of the absence of competitive pressure to improve the scheme itself. How can the future improvement of SEPA payment services be ensured over time so that changing user preferences and new technologies are taken into account? (i.e. how can we assure the ‘dynamic efficiency’ of SEPA). This leads naturally to the question of SEPA governance identified in Question 45.

A scheme is managed by a scheme management entity (SME). The scheme defines the core and basic requirements that are needed to ensure interoperability between all participants. There will never be a one size fits all solution for two reasons:

- Beyond a certain core and basic service level, demand is heterogeneous. A scheme should therefore not go further than defining core and basic services to ensure interoperability. The profit motive will drive individual banks to innovate and offer better or custom-made services to clients.
- If the scheme rules are defined on a consensual basis, innovation will (or is very likely) to take place at the pace of the slowest innovator/participant.

In the long run the definition of what is core and what is basic, shifts. Consequently, the core and basic level of a scheme needs to change over time. An SME therefore has to constantly perform a balancing act, between on the one hand ensuring that there is room for competition between its participants and on the other hand, improving the core and basic service level over time. For this reason, user involvement in the scheme management entity can be useful. A balanced representation of relevant stakeholders therefore seems advisable.

Although the offer of Value Added Services (VAS) (see Question 48) should not affect interoperability at the core and basic level as defined by the scheme, the risk that national boundaries will be retained through the introduction of ‘national VAS’ seems real. Initially, VAS will inevitably be nationally inspired, particularly since several banking communities promise to maintain existing service levels. The Commission strongly supports the no-deterioration principle. But at the same time, open conditions need to be created that will allow national market integration. One suggestion is that the EPC should open a register for all VAS specifications, so that all EPC banks have the opportunity to offer/receive payments with VAS. This should at least remove one barrier that risks fragmenting SEPA along national boundaries.

10. COMPETITION AT PRODUCT LEVEL

10.1. Competition in the cards market

The total number of replies to this topic was 37 (54%), distributed over the stakeholder categories as follows:

Table 23: Total replies on competition in the cards market

Stakeholders	Number of replies
End users	7
Member States/National Central Banks	5
Technology/Service providers	7
Banks	13
Non-banks	5
Total	37

10.1.1. Obstacles for competition in cards (25)

Question 49 identified the following obstacles to competition in the cards market:

- Unbundling and separation of scheme and infrastructure/processing
- Standardisation
- Non-discriminatory access to systems
- Real cost pricing
- Transparent pricing
- Negotiable pricing
- Honour all cards rule
- Lack of mutual recognition of certification (terminals)
- The greater the number of schemes, the more concentrated acquiring will be
- Regionally based MIFs
- Existence of closed national systems
- Unharmonised legal rules for payments
- Low pricing can be an entry barrier into some national markets
- Timelines imposed in the SEPA process
- Limited number of schemes

10.1.2. Interchange fees (21)

Question 50 asked whether we need Multi-lateral Interchange Fees (MIF) in card payments and suggested that both sides to the payment could directly charge the payment service provider according to the principle of shared cost. There was a small majority (11 to 8) against current practice.

Table 24: Views on current multi-lateral interchange fee (MIF) practices

Stakeholders	Support	Oppose
End users		4
Member States		3
Technical providers	2	1
Banks	4	2
Non-banks	2	1
Total	8	11

The following additional comments were received:

- Two banks did not take a position, but called on the Commission to provide legal clarity on the issue of multilateral interchange fees. One additional bank also called for general legal clarity.
- One Member State called for further study.
- A bank stated that transparency should be improved.
- A bank stated that MIF should become the same throughout Europe.
- A non-bank (against current practice) stated that the MIF could be allowed conditionally.

Defenders of MIF generally advanced two lines of argument:

- The two-sided market theory.
- Cash needs to be repositioned and this will not happen if cards usage cannot be encouraged through MIF pricing.

10.1.3. No surcharging rules (18)

The issue of surcharging or allowing price discrimination between different payment instruments at the point of sale was tackled in Question 51. When accepting payment by card, merchants may receive have to pay differing costs or merchant service charges (MSC). Allowing a merchant to surcharge on purchases using a high MSC would allow the merchant to differentiate between the different costs incurred when receiving different card payments. Some card schemes forbid this practice by imposing a no-surcharge rule. Some merchant associations therefore call for a ban on no-surcharge rules.

Responses showed a 2:1 preference against banning no surcharging, ie. surcharging should not be allowed. There were 12 stakeholders against a no-surcharge ban (made up as follows: end users 1, Member States 1, technical providers 5, banks 3, non-banks 2). There were six respondents in favour of a no-surcharge ban (composed as follows: end users 3, Member States 1, technical providers 1, non-banks 2).

The main arguments in relation to a possible ban on a no-surcharging rule:

- against: without changing the subsidisation of cash, banning no surcharging rules will discourage the use of cards;
- pro: a ban on no-surcharging rules would improve the rational choice of the cardholder when choosing between different card payment instruments and enhancing the negotiation power of merchants.

10.1.4. Cross border issuing and acquiring (18)

Cross border issuing and acquiring was raised in Question 52. Fourteen stakeholders agree (3 end users, 1 Member State, 2 banks, 4 technical providers, 4 non-banks) that rules that limit issuing and acquiring across borders cannot continue in SEPA and that regulation could be needed to ensure such limits were removed.

Four stakeholders were against banning rules restricting cross border issuing and acquiring (1 Member State and 1 technical provider and 2 non-banks). They argue self-regulation is addressing the issue and there is only a very small or no problem under existing international card schemes.

10.2. Interchange fee direct debit

With regard to Question 53, the necessity of an interchange fee for direct debits was analysed. Five respondents were against the use of interchange fee for direct debits, whereas three respondents supported a MIF.

Table 25: Positions regarding interchange fees for direct debits

Stakeholders	Support	Oppose
Users	0	4
Public authorities	1	0
Technical providers	1	0
Banks	0	1
Non-banks	1	0
Processors	0	0
Total	3	5

11. CASH AND CHEQUE REPOSITIONING (37)

Questions 55–60 sought comments from stakeholders on the repositioning of cash and cheques, ensuring the use of efficient payment instruments by transparent pricing and the identification of barriers militating against this objective.

While the great majority of respondents supported this aim, only two stakeholders seem opposed to the repositioning of cash.

Table 26: Positions with regard to repositioning cash and cheques

Stakeholders	Support	Oppose
Users	5	1
Public authorities	5	
Technical providers	4	1
Banks	12	
Non-banks	4	
Processors	5	
Total	35	2

11.1. Ways forward to increase use of efficient payment instruments

A variety of ways were suggested to increase the use of more efficient payment instruments:

- Pricing to reflect the efficiency of the payment instrument (16 supporting, 5 opposed)
- Public administrations should lead by example and promote electronic payments (8)
- Legislation favouring cash and cheques should be removed (7)
- The attractiveness of electronic payment instruments should be enhanced (7)
- Customer education (5)
- One respondent suggested that each Member State set a target date for phasing out cheques.

The most frequently identified barrier to the repositioning of cash and cheques are their (perceived) benefits. Legislative barriers are mentioned least.

Table 27: Barriers identified to repositioning cash and cheques

Stakeholders	Absence of pricing or perverse pricing	Legislative barriers for repositioning cash & cheques	Benefits of cash & cheques
Users	3	1	4
Public authorities	2	2	2
Technical providers	1	0	3
Banks	0	3	2
Non-banks	0	1	2
Processors	3	0	1
Total	9	7	14

11.2. Conclusion

The main conclusion that can be drawn from the responses is there is general agreement on the need for creating a level playing-field for competition between different payment instruments. This is, however, very difficult to achieve, because cash and cheques bring (perceived) benefits that electronic payments do not enjoy (e.g. anonymity, universal availability and a low regulatory burden). In addition, payment instrument pricing is distorted in the sense that the free availability of cash is generally perceived as a fact of life. Another interesting finding is that no bank respondent mentioned the absence of pricing as a problem, while 5 banks argued that pricing would contribute to cash repositioning. The importance of pricing for cash should therefore perhaps not be exaggerated.

In order to contribute to the creation of a level playing field, one concrete action would be to identify legal barriers in Member States and to then address these. Action by market parties in the area of pricing should be supported by public authorities (e.g. competition authorities). Public authorities themselves are also requested to lead by example and use and promote the use of electronic payment instruments.

It remains to be analysed whether a level playing field between cash and electronic payment instruments can be realised, considering that cash enjoys a number of benefits that electronic payment instrument do not. To some extent that is caused by regulation (e.g. fiscal, Anti-Money Laundering (AML) and Financial Action Task Force (FATF) combating terrorist financing). It is not clear why cash should be allowed to escape these rules (if this is the case).

12. CUSTOMER MOBILITY (29)

Customer mobility is reviewed in Questions 61–64. While essential for effective competition, customer mobility is considered to be very low for payments. The replies to Question 61 show stakeholders consider customer mobility to be a problem.

Table 28: Is there a problem with customer mobility?

Stakeholders	Yes	No
Users	5	
Public authorities	3	1
Technical providers	2	2
Banks	3	
Non-banks	1	
Processors	1	
Total	15	3

12.1. Problems identified

The answers to Questions 62–63 showed the following problems as restricting customer mobility:

- The existence of direct debit mandates
- Payments were only one aspect of the service offered by banks
- There was a lack of transparency
- Customers incurred switching fees

In their response to another part of the consultative paper, one respondent highlighted the difficulty of customer mobility, by pointed out: “Banks have their own proprietary connections to customers and these help them to 'own' these customers and lock them in. These are considered value-added instead of part of the overall service. That is why they insist on owning the change without inviting in other stakeholders on an equal footing. Ideally, customers should not be owned but earned through service and price [...] Competition should be less restricted by forcing the issue of end-to-end standards.”

12.2. Account number portability

Question 64 related to payment account number portability. Eighteen responses were received of which 11 opposed, and seven supported portability. Of those commenting, all users (5) favour portability, whilst all banks (7) oppose. This is shown in Table 29 below.

Table 29: Positions regarding account number portability

Stakeholders	Support	Oppose
Users	5	0
Public authorities	1	2
Technical providers	0	1
Banks	0	7
Non-banks	1	0
Processors	0	1
Total	7	11

Participants identified a number of measures that could improve customer mobility, such as:

- Standard customer interfaces (6 respondents)
- Switching service (7)
- Unique entity identifiers (2)
- Improve transparency (1)

12.3. Conclusion

Customer mobility is considered an important issue to make the market competitive (15 respondents). Only three respondents considered mobility not to be a problem. A majority of respondents doubt whether the cost of (mandating) account number portability outweighs the benefit. This suggests that any such proposal calls for a thorough cost-benefit-analysis/impact assessment. On the other hand, developing alternative switching services, particularly one aimed at tackling the problem with direct debit mandates, could greatly facilitate customer mobility. Open standard customer interfaces is also potentially a solution although some respondents even argue that account number portability is a past solution.

(Note: These comments have been superseded by the publication of a report¹³ on customer mobility prepared by an expert group established by the Commission. Nevertheless, they are included here in the interests of completeness.)

¹³ <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/07/765&format=HTML&aged=0&language=EN&guiLanguage=en>

13. E-INVOICING (36)

The final topic treated in the consultative paper was the subject of e-invoicing (Questions 65–72). The importance of the subject was demonstrated by a relatively large number of responses (36).

The potential of e-invoicing to realise substantial savings for the European economy as a whole is largely undisputed (Question 66), but four respondents questioned the reliability of past estimates (EUR 50–100 bn) quoted by the Commission. On the one hand, two stakeholders think they are over-estimations, whereas another two respondents argue they are under-estimations.

There is strong opposition by banks (although not all banks) and public authorities to include standardisation for e-invoicing in the current SEPA work of the EPC. (Question 71)

Table 30: Should e-invoicing form part of SEPA/EPC work?

Stakeholders	Yes	No
Users	0	2
Public authorities	0	5
Technical providers	2	0
Banks	3	9
Non-banks	0	2
Processors	0	3
Total	5	20

There are relatively few replies on the question whether the banks should take a leading role in the realisation of e-invoicing standards. (Questions 69 and 70)

Table 31: Should banks take a leading role in realising e-invoicing standards?

Stakeholders	Yes	No
Users		2
Public authorities		
Technical providers	1	
Banks	1	3
Non-banks		
Processors		1
Total	2	6

Questions 67–68 identified barriers to SEPA being springboard for e-invoicing, namely:

- e-invoicing is an issue between many different parties with many different requirements. It would at best be part of the next phase of SEPA. Corporates should take the lead, rather than banks;
- Legal barriers (6), most of which are currently being addressed by CEN and DG Enterprise and Industry work;
- With regard to the question whether SEPA can be the launch pad for e-invoicing, one comment was that the current ISO standardisation process does not guarantee compatibility with UN CEFACT work on standards for e-business. (eBXML).

Eight responses were given to the question with regard to public authorities taking an active role in the promotion of e-invoicing (Question 72). These responses stressed that public authorities should commit to e-invoicing and promote it. This could partly be achieved through price differentiation (e.g. surcharging for paper invoices). One party stressed the need for public authorities to set the standard.

Four respondents thought the Nordic model could be used for Europe. Only two respondents disagreed. While some claim the Nordic example cannot be copied, others argue that because of the open standards used, it is easy to copy and make the new e-invoicing solutions interoperable.

(Note: These comments have been superseded by the publication of a report¹⁴ prepared by the European Commission Informal Task Force on e-Invoicing. Nevertheless, they are included here in the interests of completeness.)

¹⁴ <http://ec.europa.eu/enterprise/ict/policy/standards/einvoicing/2007-07-eei-final-rep-3-2.pdf>

ANNEX 1: LIST OF QUESTIONS IN CONSULTATION PAPER

General questions

- (1) Do stakeholders have any comments on the vision in Section 2?
- (2) Do stakeholders have any comments on the gap analysis in Section 4?

Governance/Consultation

- (3) How can governance be improved?
- (4) Do stakeholders feel they have been involved enough in consultation in the SEPA/EPC process so far?
- (5) How can non-bank payment service providers contribute to the self-regulatory development of SEPA?
- (6) Could membership of the EPC (or any of the institutions it envisages, like the Scheme Management Entity) be opened up for all payment service providers? What conditions would have to be met?
- (7) How can other stakeholders, most importantly end users (consumers, SMEs, merchants, corporates, public bodies, but also processors, infrastructure providers) be better involved in the consultation process? (E.g. open public consultation, feedback through nominated representatives) what is the preferred channel for consultation (e.g. through the EPC directly, through an independent channel, through their financial institutions, national associations)?
- (8) What are the best practices for user involvement and consultation available in Member States?

Products meet vision?

- (9) Will the products based on the current SEPA schemes and framework (version 2.0) be sufficiently attractive
 - (a) to be offered by payment service providers and
 - (b) to be taken up by users?
- (10) Do stakeholders think the products based on the current SEPA schemes and framework (version 2.0) will be of sufficient quality to encourage users to migrate from existing national products? (Full answers to these questions may have to wait until version 2.0 is available). Responses should specify the scheme details considered deficient and the improvement deemed necessary. E.g. are there features missing in the SEPA schemes that are available in the current domestic schemes and that are particularly important to users?
- (11) Should the development of common SEPA customer standards and interfaces also be addressed?
- (12) What are the topics where end users' believe improvement would be valuable (Remittance information, time cycles, consumer protection, other?) Do stakeholders think there is a need for the development of a standard for structured remittance information in SEPA payments?

- (13) Is there a need to develop common SEPA credit transfer forms, direct debit (mandate) forms, both paper and electronic such as currently exist at the national level?
- (14) Are there products at the national level that cannot be based on the SEPA schemes/frameworks? What will happen to existing domestic products that cannot be provided within the scope of the SEPA schemes and framework?
- (15) Could there be a role for the regulator to mandate a minimum service level?

Implementation by banks

- (16) Can we rely on self-regulation in the take-up and implementation of SEPA products and standards by 2008?
- (17) Do we have to make the SEPA schemes and frameworks mandatory and if so, to whom? To all banks? What would be the cost of this and would the cost be proportionate to the gains?
- (18) How can we be sure that SEPA products will be available from all providers by January 2008? Would more detailed monitoring and milestones be helpful?
- (19) Should we make adherence to EPC DD and CT rulebooks mandatory for all payment service providers by the same date i.e. 2008?
- (20) Should we make compliance with the Cards Framework mandatory for all payment service providers by the same date i.e. 2008?
- (21) Should the scope of regulating SEPA compliance be limited to payment service providers that are already domestically offering corresponding national products? (i.e. if a bank currently offers direct debit services domestically to its customers, the bank has to offer the SEPA Direct Debit product by 1 January 2008) Would this regulation solve the reachability problem and ensure a successful launch of SEPA in 2008?

How can public authorities contribute to the standard setting process?

- (22) If it is shown necessary, what is the optimal way to regulate standards for SEPA (legally, recommended)?
- (23) What are/were best practices for standard setting in payments at the national level?

How can we ensure effective competition in the processing of payments?

- (24) How can effective competition be ensured in all aspects of processing payments? These questions are preferably answered separately for
 - (a) credit transfers/direct debits and
 - (b) for card payments.
- (25) Will open standards and the separation between infrastructure and scheme allow for effective competition in processing? If so, should a separation between scheme and infrastructure be made mandatory?
- (26) Do we need a mandated list of technical requirements to facilitate interoperability between SEPA infrastructures/processors?

- (27) Will open standards and the separation between infrastructure and scheme allow for effective competition in processing of card payments? Is there a need to require card processors and networks to process neutrally all SEPA-standardised card transactions irrespective of brand and national background? Do we need additional rules on top of technical interoperability requirements to facilitate technical and commercial interoperability between processors?
- (28) Should the (rules for) POS card-terminal certification/accreditation be harmonised throughout Europe? How should this be done?

How to ensure adoption of SEPA products by users?

- (29) How can adoption of SEPA products by end users be ensured?
- (30) Can stakeholders identify problems that would prevent migration by end users for domestic products to the SEPA schemes based products?
- (31) Is there a role for governments to be earlier adopters of SEPA products? What role can governments play in the design and consultation of SEPA products? What have been the experiences at national level with government involvement in promoting new payment services?
- (32) What is needed for big non-government users (corporates, SMEs, merchants) to ensure mass take-up? These stakeholders are particularly requested to give their views on what would facilitate their use of SEPA products.
- (33) Is consumer (i.e. private individuals) education necessary to facilitate adoption? How can this be organised best? Who should take the lead in these activities? When and how should education/communication on SEPA to end users take place?

How to minimise the cost of migration?

- (34) How can migration cost be minimised?
- (35) How do banks estimate their migration cost? Please explain the basis for the estimate.
- (36) How do other stakeholders perceive the adjustment cost of the transition to SEPA?
- (37) What ways can be identified to minimise migration cost for users?
- (38) Should IBAN and BIC be made mandatory for all users, for all euro-domestic credit transfers and direct debit transactions?
- (39) In what areas does uncertainty hinder migration? Would certainty over product availability and timing reduce migration cost?
- (40) Which kind of migration services could facilitate the migration process? (E.g. would it help if national banking communities were to publish conversion tables from national data formats to SEPA formats to provide a unique source of reference for the developers of conversion software? Can national banking associations publish these conversion tables? Will this allow software-providers to develop and deliver their conversion products on time and competitively?)

- (41) How much time would be needed for an efficient migration process and how much earlier should specifications/requirements on mandatory changes and conversion services be available?
- (42) Do software-providers and other stakeholders see other measures that would facilitate the introduction of products that could reduce migration cost?
- (43) How can we ensure that migration coincides with the 'natural investment cycles' of stakeholders?

How can we ensure that SEPA products can be improved over time?

- (44) How can we ensure that SEPA schemes and SEPA products will be improved over time?
- (45) What kind of governance arrangements should be made?
- (46) What other measures or policies are available to ensure that SEPA products are improved over time?
- (47) What arrangements currently exist at national level for ensuring that products and schemes can be improved over time to take into account changing user preferences or new technological opportunities?
- (48) How can the development of value added services be arranged, which initially may be only provided by a smaller group of banks? How can interoperability be ensured?

Competition in cards

- (49) What obstacles hinder effective competition in card payments in SEPA? What can be done to ensure greater competition in card payments in SEPA?
- (50) Do we need interchange fees in card payments? Could not both sides to the payment directly charge the payment service provider according to the principle of shared cost?
- (51) Should card scheme rules which prevent price discrimination between payment instruments at the point of sale (e.g. no surcharge rules) be banned?
- (52) Should scheme rules that limit cross-border issuing and acquiring be banned?

Competition direct debit

- (53) Is a MIF necessary for the SEPA Direct Debit? If so why? Why can't both sides to the payment be directly priced by their payment service provider according to the principle of shared cost? What alternatives are available?

Competition in infrastructure

- (54) What barriers exist for competition in processing? What measures are necessary to ensure commercial interoperability of processors/infrastructure providers and create a level playing field for competition?

How to ensure the repositioning of cash and cheques?

- (55) How can efficient payment instruments be promoted and cash and cheques be repositioned? How can the price signalling mechanism be improved to promote the use of the most efficient instruments?
- (56) What legislation can be identified that encourages or makes the use of cash/cheques mandatory? What can be done to remove or diminish the effect of legislation identified above?
- (57) What legislation can be identified that distorts price signals in the use of cash and cheques? What can be done to remove or diminish the effect of the legislation identified above?
- (58) Are there other rules or market practices that favour the use of cash/cheques? Are there examples of best practice to reduce consumer reliance on cash without provoking consumer organisations?
- (59) Are there any rules/regulations and market practices that hinder transparent and cost based pricing and use of electronic payment instruments?
- (60) What practical problems exist that hinder the introduction of pricing of cash (deposits/withdrawals) and/or cheques?

Customer choice and mobility

- (61) What are stakeholders' views on customer mobility and choice?
- (62) To which extent would common and open customer-to-bank standards (e.g. e-banking standard, direct debit message standards, credit transfer form standards) contribute to reducing customer lock-in?
- (63) Apart from the transparent pricing of payment services under the proposed directive on payment services and the initiative to set up an Expert Group on customer mobility in relation to bank accounts, are there any other initiatives that need to be undertaken now?
- (64) Is there a need for bank account number portability? Should account numbers in Europe be harmonised? Can other identifiers be developed for directing payments?

E-invoicing

- (65) How can e-invoicing be promoted?
- (66) What are stakeholders views on the potential for e-invoicing with near universal reach to most business and consumers in the EU who are increasingly using e-banking?
- (67) The Nordic countries have experienced exponential growth of e-invoicing. Users have experienced considerable savings and banks developed a convincing business case. Are there any reasons why a similar model could not be adopted to the rest of the EU?
- (68) What standards are needed for the realisation of e-invoicing throughout Europe? Is it sufficient to define standards for structured remittance data or are more complete schemes needed? Could one scheme and standard be developed that meets the needs of all potential users and ensure near universal reach?

- (69) Can the EPC in cooperation with the relevant stakeholders set standards for e-invoicing? Should they be mandated to do this by a certain date?
- (70) What would be the role of different stakeholders in the process of promoting e-invoicing?
- (71) Should e-invoicing be part of or form the core of a larger separate and more ambitious project to dematerialise the supply chain?
- (72) Is there a role for governments/EC in promoting e-invoicing? (For example mandating their use. Or governments only admitting e-invoicing or charging supplements for paper invoices?)

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