



EUROPEAN COMMISSION
Directorate General Internal Market and Services
FINANCIAL INSTITUTIONS
Retail financial services and consumer policy

Brussels, 17.5.2011

**3RD PROGRESS REPORT
ON THE STATE OF SEPA MIGRATION**

1. EXECUTIVE SUMMARY

This report is prepared subsequent to the mandate given by ECOFIN in 2008 establishing a regular review of the SEPA migration process. The report also provides an update on recent SEPA related developments.

While there is broad agreement on the significant benefits that SEPA can provide for all payment stakeholders progress with SEPA, however, continues to show a mixed picture. In particular, in terms of actual migration, the reporting period has not delivered the full results hoped.

A first achievement has been the increase in adherence by payment service providers (PSPs) to the SEPA Credit Transfer (SCT) and especially the SEPA Direct Debit (SDD) schemes. Adherence to SDD was strongly supported by the mandatory reachability obligation for euro area PSPs as of 1 November 2010 under the Regulation on cross-border payments¹. All PSPs accepting domestic direct debits in euro have to accept cross-border direct debits – a major breakthrough for an integrated payments market in Europe.

A second important achievement was the strengthening of SEPA governance at EU level by the establishment of the SEPA Council which brings together high-level representatives from the demand and supply sides of the payments market.

On the downside, the actual SCT take-up is still low. According to the Eurosystem's SCT indicator, 15.7 %² of all credits transfers in the euro area in February 2011 were processed in SCT format. While a major improvement, this still falls significantly short of the banking industry's original timeline which aimed for migration of a critical mass of credit transfers and direct debits by end-2010. On a more positive note, high-volume payment users such as public administrations show an accelerating migration trend, even if large differences can be observed between Member States.

The SDD adoption rate remains marginal and stood at a mere 0.09 % in February 2011 – this can only be partially explained with the recent launch of the scheme.

Against the backdrop of continued slow market migration, the Commission decided to come forward with a proposal for a Regulation effectively fixing end-dates for SCT and SDD migration by establishing technical requirements for credit transfers and direct debits in euros and amending Regulation (EC) No 924/2009. The proposal was adopted on 16 December 2010³ and is currently being negotiated in the European Parliament and the Council.

¹ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:266:0011:0018:EN:PDF>

² <http://www.ecb.int/paym/sepa/about/indicators/html/index.en.html>

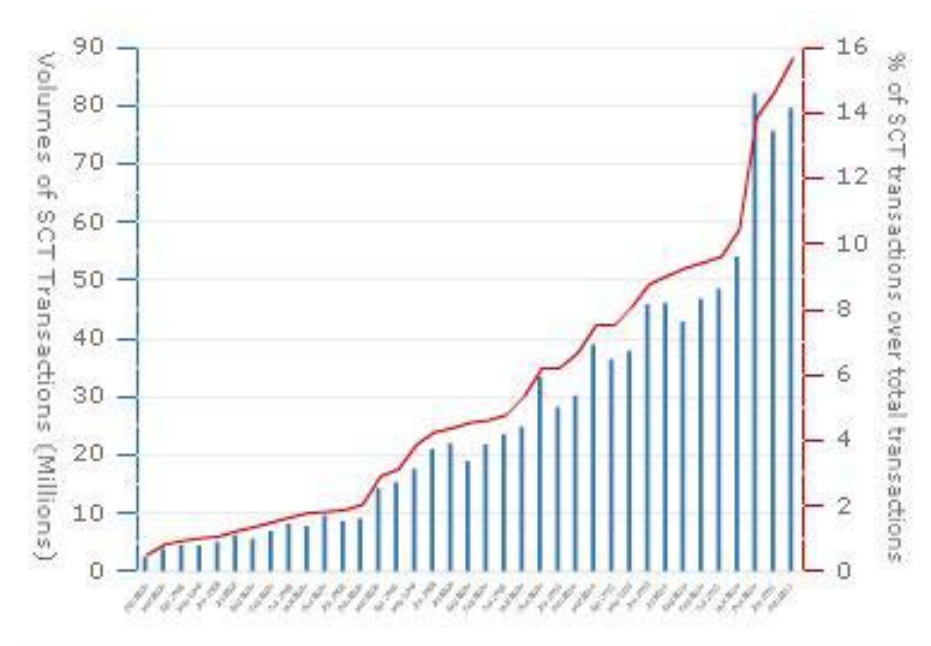
³ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0775:FIN:EN:PDF>

2. STATE OF PLAY ON SEPA MIGRATION

2.1. SEPA credit transfer migration

SCT migration continues to rise slowly but total migration remains low: In February 2011, the SCT migration rate was 15.7 %, according to the Eurosystem's euro area SCT indicator⁴.

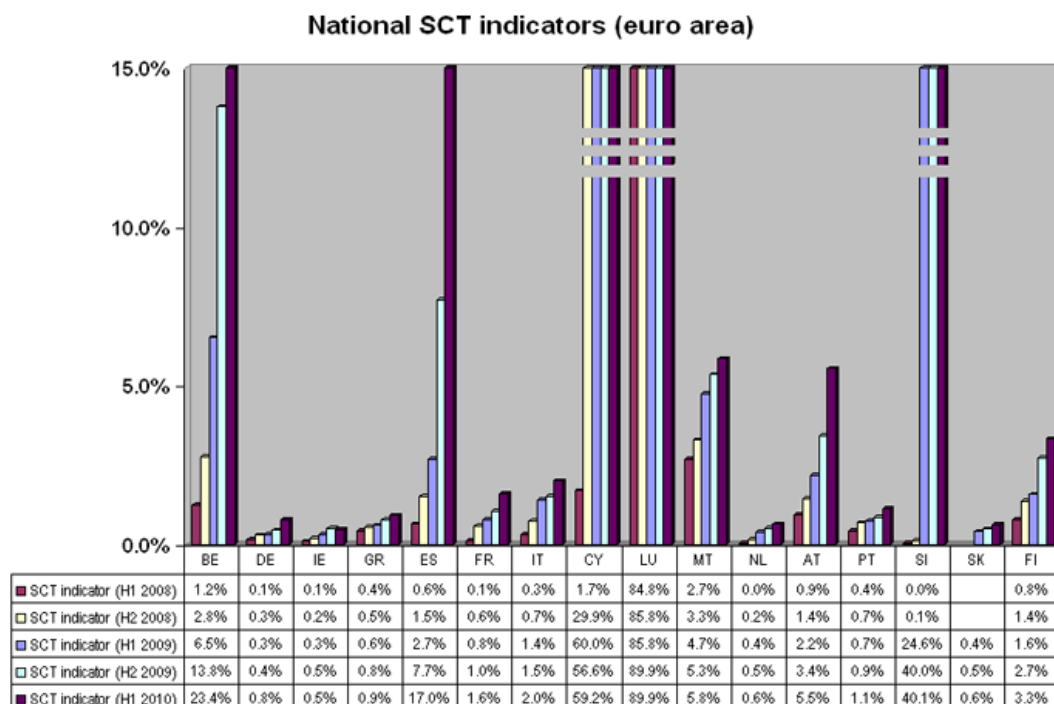
Graph 1: Euro area SCT indicator



Analysis at country level reveals that three euro area Member States have SCT rates far ahead of the group formed by remaining Member States. These Member States are Luxembourg, Cyprus and Slovenia with SCT rates of 89.9 %, 59.2 % and 40.1 % respectively (reference period: 1st half 2010). Belgium and Spain also achieved relatively high SCT rates with 23.4 % and 17.0 % respectively. All other euro area Member States' SCT rates remain below the 10 % mark. More details can be found in Graph 2 below.

⁴ <http://www.ecb.int/paym/sepa/about/indicators/html/index.en.html>

Graph 2: National SCT indicators (euro area)



Source: ECB

2.2. SEPA direct debit migration

2.2.1. Reachability/adherence

The SEPA Direct Debit (SDD) schemes, both for consumers ('core') and business⁵ ('B2B') were launched by the EPC in November 2009. This represents a true innovation at European level as for the first time direct debits can take place on a cross-border basis. Once the SDD is widely used, it will effectively integrate the market, making it much more competitive, to the benefit of consumers and creditors alike.

The most important criterion for the success of the SDD is that the creditor bank must be sure that the account of the consumer (at the debtor bank) can be debited, i.e. that the account at the debtor bank can be reached using the SDD. If creditor banks are not sure that they can reach debtor accounts using the SDD, then creditors cannot be sure that they will be paid using the SDD. Furthermore, remedying resulting error transactions will significantly increase administrative expense. Hence guarantee debtor account reachability is a key requirement for the successful launch of the SDD and migration from the existing national direct debit to the SDD. For this reason the Regulation (EC) No 924/2009 on cross-border payments in the Community⁶ made reachability mandatory for euro area payment service providers (PSPs) as from 1 November 2010. Since that

⁵ Unlike the SDD scheme, the B2B scheme is only optional.

⁶ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32009R0924:EN:NOT>

date, PSPs have to be reachable for SDD transactions, provided they are reachable for national direct debit transactions denominated in euro⁷.

According to the EPC figures as of 8 April 2011, 3 909 PSPs participate in the SDD Core scheme. Of those, 3 381 also offer SDD B2B services. At EU level, the corresponding figures for core and B2B SDD schemes are 3 769 and 3 258 respectively. Comparing SDD core scheme adherence (3 769) with SCT adherence (3 939) at euro area level, shows core SDD adherence below SCT adherence. This could however be explained by the fact that some PSPs adhering to SCT do not provide direct debits domestically and hence have no need to adhere to the SDD core scheme.

Scheme adherence is, however, only one pre-condition for the provision of SDD, even if a crucial one. Progress in terms of payment market integration is determined by actual usage of SDD. In this respect SDD migration results are disappointing and noticeably lagging behind SCT migration which is already limited. As of February 2011, only 0.09⁸ of all direct debits processed by clearing and settlement mechanisms located in the euro area were executed in the SDD format – this can only be partially explained with the relative recency of the scheme.

2.2.2. *SDD business model/MIF*

Notwithstanding the fact that only five national direct debits schemes are based on a per-transaction MIF (Multilateral Interchange Fee), the banking industry has proposed to extend this business model to all SDD. Due to the restrictive effects on competition between creditors' banks caused by such model, this has been a major competition concern for the Commission and National Competition Authorities. These concerns are similar to those caused by MIFs for payment cards as they set a floor for the fees creditors' banks charge to their customers. However, in contrast to payment cards, direct debit markets are normally characterised by long-standing customer relationships and regular payments. In this environment firms that prefer the use of direct debit payment can, and often do, directly promote it, for instance by granting rebates to customers paying by direct debit.

To facilitate the launch of the SDD scheme, Regulation 924/2009 on cross-border payments in euro clarified the short-term business model for cross-border direct debits during the transitional period until 1 November 2012⁹. This transitional period was designed to allow industry to develop and agree on a common, long-term business model for SDD after this transitional period which is compatible with the EU competition rules. To facilitate this process, the Commission previously published in conjunction with the ECB several statements providing guidance on direct debit MIFs. In particular in November 2009, a working paper was published by the Commission services and public

⁷ According to Article 8 of the Regulation (EC) No 924/2009 on cross-border payments in the Community, PSPs outside the euro area have to be reachable by 1 November 2014 or within a year after the respective Member State joins the euro area, whichever occurs first.

⁸ Latest figures available at: <http://www.ecb.int/paym/sepa/timeline/use/html/index.en.html>.

⁹ For cross-border direct debit transactions, a MIF of 8.8 cents applies, unless a lower MIF has been agreed upon between PSPs concerned. In case of national SDD, the same national interchange fee or other agreed inter-bank remuneration between the PSPs could be used as that which existed before the date of application of this Regulation.

comment was sought. In these documents the Commission expressed reservations about a per-transaction MIF from an EU competition law perspective. Furthermore, it was further indicated that multi-lateral arrangements based on reimbursing additional costs caused by error transactions might be compatible with competition rules, if appropriately designed.

In answer to calls by industry and European institutions¹⁰, the Commission proposal for a SEPA migration end-date Regulation aims at creating unequivocal clarity as to which arrangements are and are not compatible with the EU competition rules after the expiry of the transitional period fixed in Regulation 924/2009. Effectively, per-transaction MIFs were not to be allowed for both national and cross-border direct debits after 31 October 2012. The Commission proposal therefore provides for a prohibition of per transaction MIFs and also defines general conditions under which interchange fees (whether multilateral, bilateral or unilateral) may be acceptable¹¹.

2.2.3. Remaining challenges for SDD migration

Mandate migration

At a technical level, the SDD is based on a 'Creditor Mandate Flow or CMF'. Under the SDD the debtor issues two instructions on signing the mandate form: (i) authorising the creditor to collect payments from the debtor's bank account by direct debit and (ii) instructing the debtor bank to make the direct debit payments as instructed by the creditor. The mandate may be issued in paper form (standard option) or electronically through the e-mandate (optional service to SDD). SDD implementation will, however, require some changes in Member States which currently have a system based on a 'Debtor Mandate Flow' (DMF) where the direct debit mandate is held by the payer's bank.

When migrating to SDD, ensuring continued legal validity of existing direct debit mandates is crucial. Otherwise the re-signature of millions of existing mandates will be necessary and will cause an unnecessary burden and substantial administrative expense, while significantly hindering the SEPA migration process.

With the important exception of Germany and Finland¹², this issue has been addressed in all Member States, either by means of introducing legislative changes during the transposition of the Payment Services Directive or by agreement between the stakeholders involved (e.g. PSPs changing their general terms and conditions combined with further information to customers). In some cases it was concluded, that no changes are required.

¹⁰ See Impact Assessment accompanying a Commission proposal for a migration end-date to pan-European credit transfers and direct debits, Annex 1a: *Key statements by European Institutions requesting clarification for MIF for SEPA Direct Debit* and Annex 3a: *Dialogue with the Industry and Public Consultation on MIF for Direct Debit*.

¹¹ R-transactions are transactions that cannot be properly executed. Depending on the type of transaction, the letter 'R' can stand for rejection, refusal, return or reversal, among others.

¹² However, in Finland the use of direct debits is very low and will be replaced by e-invoicing.

This exception is a major problem as Germany has approximately 45 % of all direct debits undertaken at euro area level. Estimates received from German industry sources indicate that the total cost of re-signing more than 600 million existing direct debit mandates could be as much as EUR 4.8 billion.

Consumer protection

The European Parliament and the Council have always stressed the importance of SEPA payment products that meet the real needs of users and provide levels of prices, service, security and guarantees which are at least as good as those of existing legacy payment instruments. This view is shared by the Commission and is also strongly supported by the different user associations, especially in relation to the SDD.

Therefore, to reassure users and ensure successful SDD migration, the Commission proposal for a SEPA migration end-date Regulation introduces additional rules to strengthen consumer confidence, especially for those accustomed to operate in a Debtor Mandate Flow (DMF) environment.

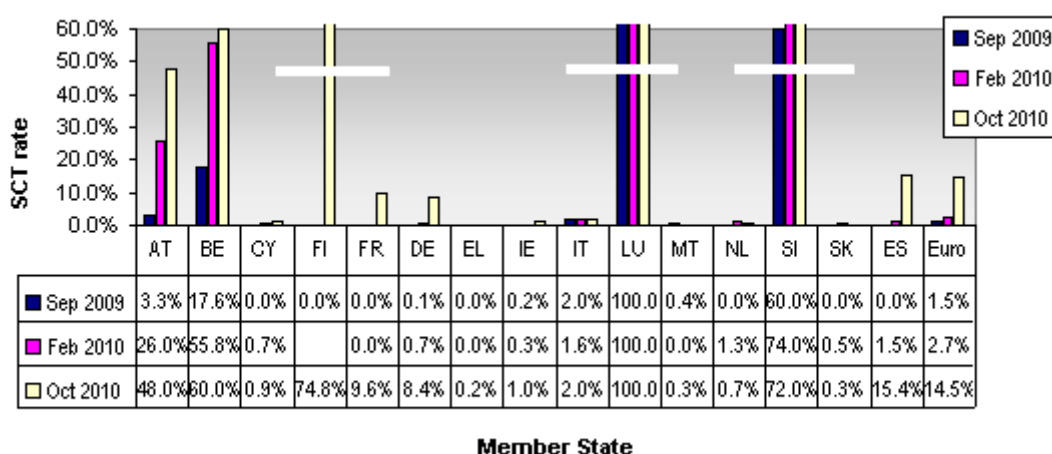
2.3. SEPA migration by public administrations

Despite the fact that critical mass use of SEPA instruments has not yet by far been achieved in public administrations (PA), migration to SCT shows a strongly accelerating trend. In October 2010, the SCT migration rate for the replying PA in the euro area was 14.5 % versus only 2.7 % in the last survey. This shows the SCT migration rate by PA has increased significantly and is expected to continue. For example, once the target date for wide-scale migration of French PA to SCT is approaching (end-2011).

In particular PA in Finland, Belgium, Austria, Spain and France have made significant progress over the reporting period. Comparing current results to the previous survey at Member State level, the SCT rate has increased in the majority of replying Member States, namely in Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Italy, Malta and Spain. For six Member States, the SCT migration rate for replying PA exceeds the general average SCT migration rate at euro area level, namely in Austria, Belgium, Finland, Luxembourg, Slovenia and Spain, with SCT rates of 48 %, 60 %, 74.8 %, 100 %, 72 % and 15.4 % respectively. The most significant progress as compared to the last survey was reported in Finland, Austria and Spain where respectively the Finance Ministry, the Treasury and the Social security bodies were the key drivers. Additional positive examples are France where the SCT rate has jumped from zero to almost 10 % and Germany from 0.7 % to 8.4 %.

Graph 3 shows the evolution of the SCT rates for PA in September 2009, February 2010 and October 2010 by Member State.

Graph 3: Average SCT rate in individual PA in euro area



* Finland did not provide any survey reply for February 2010.

In the following countries, the SCT rate in October 2010 was still 1 % or less: Cyprus, Greece, Ireland, Malta, Netherlands and Slovakia. The SCT rates in the Netherlands, Slovenia and Slovakia decreased due to statistical effects¹³.

Furthermore, only seven Member States in the euro area have established a common end-date for all PA to phase out legacy credit transfers. The table below summarises the situation for those Member States where a target date for SCT migration has been set.

Member State	SCT migration end-date for all public administrations		
	September 2009 status	February 2010 status	October 2010 status
Belgium*	end-2010	end-2010	end-2010
France**	end-2011	end-2011	end-2011
Greece	no end-date	no end-date	mid-2012
Cyprus***	end-2011	end-2011	end-2011
Netherlands****	mid-2010	end-2010	end-2010
Austria****	end-2010	end-2011	end-2011
Slovakia**	mid-2012	mid-2012	end-2012

The reported SDD migration rates are mostly still at zero or only marginal (Germany with 0.002 %), with the exception of Belgium where the SDD rate is 12.1 %. This is because only a small number of PA use direct debits to a very limited extent.

As a result, the reported SDD rate for the replying PA in the euro area was only 0.24 %, which is still slightly above the overall SDD rate in the euro area (0.05 % in October 2010). As regards the establishment of a common end-date for all PA for phasing out legacy direct debits (DD), only Greece has set a target date for migration to SDD.

¹³ In the Netherlands, the central tax administration was newly added in the current survey. However, as this PA only marginally uses SCT, the SCT rate in the Netherlands decreased. In Slovenia, an increase in the number of large value transactions (above EUR 50 000) which are not considered SCT, was observed in October 2010. In Slovakia, the SCT rate has decreased due to a lower number of cross-border credit transfers in October 2010.

In future surveys, the SDD rate of PA is expected to progressively increase on account of the reachability obligation under Regulation (EC) No 924/2009.

On the other hand, the relative importance of direct debits in total payment volume compared with other payment instruments used by PA is generally very low.

SEPA migration by European institutions

As regards European institutions, the Commission has completed its own migration to SEPA. This means that, annually, more than 1.5 million credit transfers are initiated by the Commission in the SEPA format.

The Council of the EU uses IBAN/BIC for all its credit transfers while the ISO 20022 XML format is still not yet used at this stage.

In the European Parliament, IBAN and BIC are used for all credit transfers with the exception of credit transfers made within Belgium. The latter represent around 50 % of the European Parliament's payment transaction volume. The European Parliament submits payment instructions to its payment services provider in the national file formats and not yet in the ISO 20022 XML format.

The ECB has fully migrated to SCT as of end January 2008.

2.4. Commission proposal for a migration end-date

Against the backdrop of protracted migration to existing SEPA instruments and continued market uncertainty, the Commission decided to adopt a proposal for a Regulation establishing end-dates for migration to pan-European credit transfers and direct debits¹⁴. A large majority of stakeholders from all categories generally welcomed the setting of legally binding end-dates. They agreed that this provides a step-change improvement in payments market integration, accelerates the achievement of the substantial benefits of SEPA and avoids the situation where economies of scale are offset by the cost of running duplicate payment systems.

The Commission proposal effectively requires existing national payment schemes for euro credit transfers and direct debits to migrate to pan-European, i.e. SEPA schemes by fixing the following mandatory requirements: use of certain technical standards (IBAN, BIC and XML ISO 20022) as well as payment message requirements (all of these have been inspired by the EPC Rulebooks); reachability for all euro accounts, interoperability and the same rules for domestic and cross-border payments. Although the proposed Regulation does not directly mandate the EPC schemes, existing national payment schemes will effectively be forced to move to the EPC schemes by the migration end-dates since these are the only schemes currently fitting these requirements.

¹⁴ Proposal for a Regulation of the European Parliament and of the Council establishing technical requirements for credit transfers and direct debits in euros and amending Regulation (EC) No 924/2009, COM(2010)775 final, 16.12.2010, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0775:FIN:EN:PDF>.

The envisaged migration deadline is for credit transfers and direct debits respectively, one and two years after adoption of the Regulation by the European Parliament and the Council. There is also a general three year transitional arrangement for certain niche products. To facilitate wider cross-border use of euro payments, the proposal also prohibits payers (e.g. for the payment of a salary or a pension) and creditors (e.g. in connection with a cross-border direct debit payment to a utility) from specifying the Member State in which the beneficiary and payer respectively must hold the payment account.

To improve transparency and competition for SDD, as well as provide the legal clarity requested by industry, the proposal includes a prohibition of per-transaction MIFs between payment service providers for direct debits. However, subject to the respect of certain principles, aimed at efficient cost allocation, a MIF for error or so-called 'R' transactions may be applied. Finally, a number of measures are proposed to strengthen consumers confidence when using the SDD (namely extra mandate checks – particularly where there is no refund right, the option to limit the amount or frequency of direct debits and also to establish 'white' and 'black' lists of creditors).

The proposal is currently negotiated in the Council and the European Parliament.

2.5. SEPA for cards

2.5.1. Card standardisation/EMV implementation

The standardisation work of the European banking industry has so far focused very much on SEPA credit transfers and SEPA direct debits. While the EPC developed detailed rulebooks for these two types of payments, only a general SEPA framework for cards has been designed. The creation of a specialised Cards Stakeholder Group in 2009 that involves all relevant stakeholders with the aim of creating cards standards is a promising first step, but it is still a long way until this process is finalised and common cards standards are available throughout the EU.

The declared vision of the EPC for creating a SEPA for cards is to enable European cardholders to use payment cards to make payments and withdraw cash in euro throughout the SEPA area with the same ease and convenience as they do in their home country. European consumers should benefit from a wider acceptance of their cards within SEPA and more choice of card products than before. SEPA for European merchants means that they should benefit from a more competitive market for cross-border card acquiring while being able to choose which card brands they wish to accept.

The EPC SEPA Cards Framework (SCF) supports EMV as the technical norm because of the higher security level it offers through the use of chip (in combination with a PIN) instead of magnetic stripe. Therefore, SCF compliant cards, POS (point-of-sale) terminals and ATMs (automated teller machines) were targeted to migrate to EMV by the end of 2010. By Q4 2010, across the 27 EU Member States, EMV compliance stood at 81 % for cards (up from 72 % shown in the last Progress Report), 90 % for POS (up from 77 %) and 96 % for ATMs (up from 93 %). Detailed EMV compliance by each Member States is illustrated in Annex 2.

2.5.2. New EU card scheme initiatives – latest developments

The EU cards market is still dominated by two major international card schemes, namely Visa and MasterCard. Merchants and consumers, especially, are concerned by the

disappearance of efficient national debit card schemes with less competition and increased concentration. Currently three initiatives aim to create a new European debit card scheme which could challenge the predominance of the two big international players in Europe. These are EAPS, Monnet and PayFair.

EAPS (European Alliance of Payment Schemes) interlinks existing national debit card and ATM schemes from Germany (Girocard), Italy (Pago BANCOMAT), Spain (EURO6000), the United Kingdom (LINK), Portugal (MULTIBANCO) as well as EUFISERV (interbank network of saving banks). Since August 2009, the EAPS is operational primarily for German and Italian cardholders (44 000 German ATMs; 8 500 Italian ATMs and 3 600 Italian point of sale terminals). As of July 2010, German cardholders were able to withdraw cash in the United Kingdom (access to 63 000 LINK ATMs). In total, EAPS had about 2 million cross-border transactions in 2010. More implementation will follow during the course of 2011 for ATMs, point of sale terminals and cards.

Monnet involves primarily major French and German commercial banks. Until now, 24 different banks from seven Member States are cooperating in the project aiming to set up a new scheme¹⁵. The scheme is still in the preparatory phase but banks claim that without an acceptable MIF for issuers the business model is not viable.

PayFair has retail roots but positions itself as a neutral scheme open to banks and retailers. A test pilot with a major Belgian retailer was launched end-2009. PayFair is expanding its geographical reach to other Member States, e.g. Germany. In contrast with the two other projects, PayFair's financing mechanism is organised around a SEPA and PSD compliant infrastructures for payment processing and with flat and transparent fee model. In practice merchants would pay an optional 'authorisation fee' to banks which provide on-line information on the availability of funds on the cardholder's account as well as a 'card incentive' fee. Although the amount is paid by merchants to PayFair as the scheme manager, this combined fee can be compared in some respects with MIFs. The authorisation fee would be based on the processing costs of providing on-line information on funds available on the customer's account. The card incentive fee is calculated on the basis of PayFair's market share and the number of debit transactions in a given country. Therefore the MIF differs from country to country and is low compared to those paid in some Member States for MasterCard/VISA debit cards and domestic debit cards systems.

These three card initiatives are developing at different pace. Given the substantial cost involved, some are hesitant to move forward and invest, without greater certainty on the business model. This concerns in particular the MIF. The Commission has sought to provide information and guidance through the 'Merchant Indifference Test' methodology as explained in the MasterCard and Visa settlement/commitment, as explained below.

2.5.3. *Business model/MIF*

The SEPA project is also influenced by the application of the EU competition rules. In December 2007 the Commission adopted the MasterCard decision prohibiting a collective inter-bank fee arrangement (MIF-arrangement) concerning credit and debit

¹⁵ France, Germany, Portugal, United Kingdom, Belgium, Spain and Italy.

payment card transactions¹⁶. The Commission is presently conducting proceedings with respect to similar arrangements applied by Visa Europe on debit cards¹⁷.

MasterCard has appealed the decision. However, pending judgment, MasterCard undertook to reduce its cross-border weighted average MIFs to 0.30 % of the transaction value for consumer credit cards and to 0.20 % of the transaction value for consumer debit cards. The calculation of the MIF rate is based on the Merchant Indifference Test, which ensures that MIFs are set at a level where merchants are indifferent to payment by cash or card transactions.

Visa Europe committed to reduce the maximum weighted average MIF for consumer debit cards to 0.20 % of the transaction value for cross-border and national transactions payments in those EEA countries where it sets the MIF directly. The Commission is of the view that the MIF rate proposed by Visa Europe is consistent with the Merchant Indifference Test.

The proposed maximum weighted average MIFs for MasterCard and Visa Europe may be modified if reliable new information becomes available on the cost of card payment as compared to the cost of cash. This may be the case after completion of the Commission's study on the cost of different payment instruments.

Although not all European payment card schemes are based on MIFs, it has been so far the preferred financing model for many European banks and card schemes. The probability that (excessive) inter bank fee arrangements are incompatible with the EU competition rules therefore affects banks' readiness to invest in new pan European card schemes.

¹⁶ MasterCard came to an informal settlement agreement on fees applied to cross border debit and credit card transactions with the Commission in April 2009, http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=1_34579.

¹⁷ A decision accepting commitments offered by Visa Europe on debit card fees applied to cross border transactions and in a number of Member States was adopted in December 2010. Proceedings on credit card fees are ongoing, http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=1_39398.

3. PRICING OF SEPA INSTRUMENTS

Under the above mentioned Cap Gemini study and other reports, it is expected that individual consumers and companies will benefit in the medium to long term from decreasing prices for SEPA payments as compared to legacy national payment instruments. With the SEPA migration accelerating, higher payment volumes should trigger cost reductions based on scale effects. At the same time increased competition between payment service providers is expected to push prices down. While it is still early to discuss the real impact of the introduction of SEPA on the prices of payment services, due to the rather low migration rate to SCT, the first anecdotal data is promising. The introduction of SCT in several non-euro area Member States (for cross-border payments) has led to a reduction of charges for euro payments by a number of banks (e.g. in the United Kingdom and Poland). Some signs of a downward pressure on prices could also be observed among banks of the euro area, though in these cases other factors (e.g. the impact of financial crisis) cannot be excluded.

The European Commission will systematically monitor the evolution of charges for the SEPA payment instruments. A price study on current accounts for consumers has been conducted by independent consultants in the period February-April 2009¹⁸. The results of this study, which covers a representative sample of 224 banks from all 27 Member States, will be used by the Commission as a reference point to assess potential changes in pricing of SEPA payment instruments in the future.

However, tariff monitoring by the Commission is not sufficient to assess the impact of the introduction of SEPA instruments on prices of payment services. Transparency of information on the new products, their characteristics and structure as well as on any hidden costs is also essential. In this context, the clarity of terminology used by banks, comparability and transparency of bank fees have been flagged as problems both in the above mentioned study and in the Monti report on the Internal Market¹⁹.

The Commission has decided to take further action in this field and has asked the European banking industry (EBIC) to identify and implement appropriate EU-wide solutions (e.g. standardised information sheets on bank retail fees, including payment services) to ensure proper understanding and comparability of fees by the European consumers. This includes the comparability of prices and conditions for SEPA and legacy payment instruments. Should the proposed solutions prove inadequate the Commission will examine alternative options, including a legislative proposal.

¹⁸ The survey on the prices of current accounts is available at: http://ec.europa.eu/consumers/rights/docs/study_bank_fees_en.pdf. See also EU report on retail financial services, http://ec.europa.eu/consumers/index_en.htm.

¹⁹ *A New Strategy for the Single Market: at the Service of Europe's Economy and Society*, 9.5.2010, http://ec.europa.eu/bepa/pdf/monti_report_final_10_05_2010_en.pdf.

4. MERGERS, ACQUISITIONS AND OTHER BUSINESS DEVELOPMENTS IN THE PAYMENTS ENVIRONMENT

SEPA creates an environment in which all payments, including cross-border payments between Member States, become 'SEPA-domestic'. This is achieved by the SEPA-induced standardisation of payment transactions. As a consequence, payment processors – historically mostly national players – are striving for SEPA-wide scope, often through mergers and consolidation with other national processors. Another SEPA requirement, namely the separation of card schemes and processors, is an additional driver for consolidation, especially for card payment processors.

Therefore it is not surprising that in 2010 further consolidation took place in the payments market. The leading Spanish card payment processors Sermepa and Redes y Procesos merged to form a new company called RedSys. RedSys will manage card transactions belonging to Spain's two largest payment systems, ServiRed and Sistema 4B. Similar mergers have in previous years taken place in Italy (SIA/SSB) and the United Kingdom (Voca/Link).

5. OTHER SEPA RELATED DEVELOPMENTS

5.1. SEPA Governance

Until now, SEPA has been predominantly run as a self-regulatory project, set up and managed by the European Payments Council (EPC), with the strong support of the ECB and the Commission.

In a project of SEPA's size, it is very important that the governance arrangements ensure full transparency and proper participation by all stakeholders, including users. Establishing appropriate governance arrangements at EU level was also a key priority in the Commission's SEPA Roadmap²⁰. While it is the responsibility of the EPC to oversee the development and evolution of the pan-European payment schemes and compliance to these schemes it also needs to be ensured that integration of the euro retail payments market is fostered in a way that meets the needs of end users.

In order to improve stakeholder involvement in the governance of SEPA, the Commission and the ECB have jointly established the 'SEPA Council' in March 2010. The objective of the SEPA Council is to promote the realisation of an integrated euro retail payments market by ensuring proper stakeholder involvement at high level and by fostering consensus on the next steps towards the realisation of SEPA. The SEPA Council is composed of five representatives from the user side of the market (consumers, retailers, corporates, SMEs and national public authorities) and five representatives from the supplier side (EPC, cooperative banks, savings banks, commercial banks and payment institutions). The Council is complemented by representatives of four National Central Bank board members on a rotational basis and co-chaired by the Commission and the ECB.

²⁰ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52009DC0471:EN:NOT>

So far two meetings were successfully organised and produced positive results. In particular, a formal declaration strongly supporting end-dates for migration to pan-European credit transfer and direct debit schemes was adopted.

5.2. SEPA Communication

Despite the substantial progress which has been achieved in many areas, awareness of SEPA across all stakeholder categories remains a challenge, especially for consumers and SMEs. Raising general awareness and the active promotion of SEPA products has been identified as one of the key priorities in the *SEPA Roadmap for 2009-2012* adopted by the Commission. However, given the current national characteristics of payment markets, this should take place first and foremost at national level where the basic groundwork for successful SEPA migration must take place.

At national level, SEPA communication is generally coordinated by the national SEPA committees which have been established in all Member States. It is indispensable that national SEPA committees comprise a broad range of stakeholders from both sides of the payments market. The level and intensity of current SEPA communication efforts however differ substantially from one Member State to another. In some Member States, general SEPA awareness is ensured by coordinated efforts between the private and public sectors²¹, while in many others, SEPA communication is entirely left to the private sector²², sometimes in cooperation with National Central Banks²³.

Until now, only very few Member States have prepared a specific strategic SEPA communication plan for all stakeholders at national level. SEPA issues should be addressed as part of general communication activities (e.g. websites, participation at national fora, external events, brochures, leaflets, etc.) or within the framework of a more general SEPA migration plan.

Banks and payment service providers have the primary responsibility for communication with their customers in this respect by providing them with concrete information about the main characteristics of SEPA products, the changes they will face and the benefits they can expect from their use.

5.3. PSD transposition – state of play

At this stage, transposition of the Payment Services Directive has been completed in all Member States, with the exception of Poland. The Commission has decided to refer this matter to the Court. Poland has announced that the transposition could be achieved in the first half of 2011.

²¹ Belgium, France and Netherlands.

²² Czech Republic, Denmark, Germany, Estonia, Luxembourg, Hungary, Poland and Finland.

²³ Italy, Austria, Cyprus, Latvia, Lithuania, Portugal, Slovenia and Slovakia.

5.4. Commission Communication on e-Invoicing

On 2 December 2010, the Commission adopted the Communication *Reaping the benefits of electronic invoicing for Europe*. The Communication aims at accelerating the uptake of e-Invoicing and facilitating the emergence of open and interoperable e-invoicing solutions throughout Europe.

E-Invoicing allows for shorter payment delays, fewer errors, reduced printing and postage costs and, most importantly, fully integrated processing. A study on behalf of the Commission estimates that moving from paper to e-Invoices throughout the EU could generate savings of around EUR 240 billion over a six-year period²⁴. Furthermore, due to the close link between invoicing and payment processes, the creation of SEPA offers an ideal launch pad for interoperable European e-Invoicing schemes.

However, the existing rules that govern e-Invoicing in Europe are still fragmented along national lines and most of the potential of e-Invoicing is still untapped. What is more, exchanging e-invoices is still too complex and too costly, in particular for SMEs. As a result the average market penetration of e-Invoicing remains rather low in Europe and is currently estimated at around 5 % of all invoices annually exchanged²⁵ for business-to-business relations.

In this context, the Communication of the Commission addresses the following priorities:

- Ensuring legal certainty and a clear technical environment for e-invoices to facilitate mass adoption.
- Encouraging and promoting the development of open and interoperable e-invoicing solutions based on a common standard, paying particular attention to the needs of SMEs.
- Supporting the uptake of e-Invoicing by setting up organisational structures, such as national e-Invoicing fora and a European Multi-Stakeholder Forum for electronic invoicing.

It is expected that the national e-Invoicing fora will be set up by Member States during the first half of 2011. Delegates of these national fora will be appointed to the EU Forum which is supposed to meet on a bi-annual basis.

²⁴ *SEPA: potential benefits at stake*, Capgemini, http://ec.europa.eu/internal_market/payments/docs/sepa/sepa-capgemini_study-final_report_en.pdf.

²⁵ *E-invoicing – E-billing in Europe*, Billentis, 2009.

Annex 1: Number of payment service providers participating in SEPA schemes²⁶ (status as of 8 April 2011)

	SCT	SDD Core	SDD B2B
Euro zone	3.939	3.769	3.258
AUSTRIA	715	706	620
BELGIUM	40	34	25
CYPRUS	15	11	1
ESTONIA	5		
FINLAND	7	7	2
FRANCE	258	230	52
GERMANY	1.811	1.800	1.726
GREECE	28	21	15
IRELAND	8	8	3
ITALY	690	653	628
LUXEMBOURG	53	16	8
MALTA	15	2	1
MONACO	18	18	
NETHERLANDS	42	26	9
PORTUGAL	27	27	13
SLOVAKIA	8	12	2
SLOVENIA	21	21	13
SPAIN	178	177	140
Non-euro zone	552	140	123
BULGARIA	22	1	1
CZECH REPUBLIC	7	2	1
DENMARK	107	96	96
HUNGARY	16	1	1
ICELAND	2		
LATVIA	23	3	1
LIECHTENSTEIN	6		
LITHUANIA	8	1	
NORWAY	128	1	1
POLAND	27	3	2
ROMANIA	20	2	2
SWEDEN	8	2	2
SWITZERLAND	141	8	4
UNITED KINGDOM	37	20	12
Grand Total	4.491	3.909	3.381

Source: EPC

²⁶ SCT: SEPA Credit Transfer
SDD Core: SEPA core Direct Debit scheme
SDD B2B: SEPA Direct Debit Business-to-Business.

Annex 2: EMV²⁷ compliance assessment in Q4 2010

Member State	Debit cards	Credit cards	Total cards	POS	ATM
Austria	100.00%	100.00%	100.00%	85.10%	99.05%
Belgium	100.00%	100.00%	100.00%	96.00%	92.70%
Cyprus	93.00%	88.00%	90.74%	82.00%	63.50%
Germany	98.00%	75.00%	93.29%	85.00%	96.00%
Spain	48.70%	n/a	48.70%	91.40%	99.62%
Finland	90.12%	98.21%	93.06%	70.00%	100.00%
France	100.00%	100.00%	100.00%	99.50%	100.00%
Greece	50.44%	72.79%	58.23%	70.59%	99.88%
Ireland	99.99%	100.00%	99.99%	99.99%	100.00%
Italy	48.00%	89.00%	69.78%	81.00%	80.00%
Luxembourg	100.00%	100.00%	100.00%	100.00%	100.00%
Malta	94.10%	93.40%	93.68%	100.00%	57.10%
Netherlands	93.00%	100.00%	94.37%	79.62%	100.00%
Portugal	83.79%	n/a	83.79%	94.17%	100.00%
Slovenia	98.32%	95.89%	97.92%	95.75%	94.39%
Slovakia	87.21%	85.44%	86.93%	98.55%	100.00%
Euro area	78.22%	91.25%	82.23%	88.29%	95.38%
Bulgaria	26.80%	55.90%	29.20%	95.90%	99.80%
Czech Republic	96.94%	78.88%	94.05%	99.93%	100.00%
Denmark	100.00%	55.00%	92.11%	100.00%	100.00%
Estonia	96.73%	70.47%	89.76%	92.54%	100.00%
Hungary	40.00%	29.00%	38.26%	91.00%	97.00%
Lithuania	85.00%	54.00%	82.09%	45.00%	39.00%
Latvia	88.85%	95.91%	91.45%	88.55%	52.21%
Poland	0.05%	0.05%	0.05%	80.00%	44.00%
Romania	58.05%	57.31%	57.96%	88.77%	98.31%
Sweden	97.00%	87.50%	93.91%	71.40%	100.00%
UK	100.00%	100.00%	100.00%	100.00%	100.00%
Non-euro area	71.03%	94.65%	78.66%	93.47%	98.17%
EU-27	75.71%	92.07%	80.96%	89.55%	96.10%

>75–100%
>50–75%
>25–50%
0–25%

Source: EPC

²⁷ EMV represents a technical specification for chip cards replacing the magnetic stripe on the payment card.