

# Single Euro Payments Area becomes operational

The Single Euro Payments Area (SEPA) became operational on 28 January 2008 when the first electronic payments for credit transfers in euros were made across Europe using the new SEPA standards. This marks the first step in a major migration over the next few years during which customers will move from existing national electronic payment instruments to the new SEPA instruments in a market-led process. SEPA is a logical extension to the introduction of the euro and will produce substantial benefits through a more competitive and efficient payments market.

**S**SEPA is the new Single Euro Payments Area that enables people to make payments throughout the euro area as quickly, safely and easily as they make national payments. In SEPA, all euro payments are considered domestic and are made with one set of payment instruments. SEPA is thus a natural progression to the introduction of the euro and another major step in realising the full potential of the Single Market for Europe.

On 28 January an important milestone in the SEPA migration process was reached with the official launch of the first SEPA payment instrument for credit transfers. For technical and legal reasons, the launch of the SEPA payment instrument for direct debits will take place subse-

quently, but should occur no later than 1 November 2009. For card payments the SEPA Cards Framework has been in force since 1 January 2008.

SEPA is an initiative of the European banking industry, represented by the European Payments Council, and is strongly supported by both the Commission and the European Central Bank (ECB). The Commission and the ECB see SEPA as an integrated market for payment services subject to effective competition with no distinction between cross-border and national euro payments. This calls for the removal of all technical, legal and commercial barriers between current national payment markets.

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When fully implemented, SEPA will standardise the millions of everyday electronic payments made with credit transfers, direct debits and credit and debit cards. SEPA will allow customers to make and receive cashless payments in euros anywhere in the 27 Member States of the EU and in the neighbouring countries of Iceland, Liechtenstein, Norway and Switzerland, using a single bank account and a single set of payment instruments.

## Migration process

Electronic payments within the EU are currently organised on national lines and, in the vast majority of cases, it is just not possible to make cross-border, electronic credit transfers, nor use a national debit card for cross-border payments. Furthermore a cross-border direct debit simply does not exist.

Over the coming three years this will change as the new SEPA products gradually replace national payment products. During the market-driven migration phase, customers will move from old national instruments to the new SEPA instruments. The aim is that a critical mass



At the SEPA launch event in Brussels 28 January Gerard Hartsink of the European Payments Council said that the implementation of SEPA will have an impact on every citizen, corporation, small and medium sized enterprise, merchant and public administration.



McCreedy: "After several years of hard preparation by the European banking industry and the EPC in particular, we now have a common standard for exchanging payment messages in euros throughout the EU and in the neighbouring countries of Iceland, Liechtenstein, Norway and Switzerland."

of payments will have migrated over to the new SEPA payment instruments by the end of 2010.

### Industry-led initiative

The new SEPA payments have been developed by the banking industry under the aegis of the European Payments Council (EPC) which has coordinated the development of common standards and business rules for euro payments.

On 28 January, the Commission in conjunction with the ECB and the EPC held the "SEPA Goes Live" event to celebrate the official launch of SEPA. The event was attended by many distinguished guests and visitors drawn from the European payments world.



Gertrude Tumpel-Gugerell of the ECB: "This is a major step in the creation of the Single Market which is why the ECB has supported it. The banks have made this process a reality. It can help them expand their business. It is now up to them to use these opportunities."

At the event, Internal Market and Services Commissioner Charlie McCreedy said: "Over the next three years a quiet revolution is going to take place in the European payments landscape. Making electronic payments in euros throughout the whole of the EU is going to become as easy, efficient and convenient as making national payments today. SEPA is a fantastic opportunity for the European economy, for growth, for our citizens. To make the best use of this opportunity we need

everyone's skills, commitment and innovation."

ECB Executive Board Member, Ms Gertrude Tumpel-Gugerell added: "SEPA is all about integration, harmonisation and modernisation. It is a natural consequence of the single currency and a major step in the creation of the Single Market. That is why the ECB has supported the project closely over the past six years. Today's launch is the first visible result."

EPC chair, Gerard Hartsink, described the launch of SEPA as a historical first step and highlighted its importance: "The SEPA project is an even bigger project than the euro launch. SEPA will gradually replace existing electronic euro payment instruments in the SEPA area. This will have an impact on every citizen, corporation, small and medium sized enterprise, merchant and public administration."

### Worldwide impact

With the launch of SEPA Credit Transfers on 28 January, EU banks are the first in the world to deploy a new file format based on global standards (ISO 20022 XML) for mass euro payment transactions. This innovation is likely to have an impact far beyond Europe as American and Asian corporations and banks have already started to realise the global impact of 31 countries moving jointly towards SEPA. SEPA is a real contribution to make the European payments industry the most innovative in the world.

### Wider economic impact

Commissioner McCreedy recognised that SEPA is a tremendous opportunity for Europe to increase administrative efficiency and business competitiveness and thereby contribute to the achievement of the EU's Lisbon goals for competitiveness. He went on to point out that in the public sector SEPA can help drive eGovernment by provid-

ing a new vehicle for the development of transactional services in the areas of eProcurement and the efficient delivery of public services such as taxation and customs.

For banks, SEPA migration is both a challenge and an opportunity. Payments are essentially a volume-related business and the integration of national payment systems will produce substantial economies of scale thus lowering payment processing costs. It will also enhance competition by making cross-border competition for payments possible.

Commissioner McCreedy said that whilst competition will be increased, SEPA will also provide opportunities to increase the efficiency of existing payment systems and market new and profitable products such as eInvoicing.

"In my view, banks which actively embrace SEPA and see it as a business opportunity rather than a compliance exercise, will gain most in the long run."

### Need for fast migration

Banks are not the only bodies which will have to change their practices for the full benefits of SEPA to be realised. Retailers, businesses and public authorities will also need to adapt.

As heavy users of payment instruments, corporations and public administrations stand to gain substantially from the efficiencies made possible by SEPA. They can, it is recognised, play an important role in the success of SEPA by being early adopters of SEPA instruments and thereby help realise anticipated cost savings. This point was picked up by both Commission

## Benefits to consumers

Consumers will be able to make their euro payments throughout the SEPA area from a single bank account. From this account, consumers will be able to make credit transfers, direct debits and payment card payments in euros in the whole of SEPA, as easily as they make payments in their home country. People who live, work or study outside their home country will no longer need a bank account at home and another one abroad.

SEPA together with the Payment Services Directive will provide the following advantages to consumers:

- **Convenient credit transfers:** SEPA will guarantee that all euro credit transfers will be made in the same way everywhere in the SEPA, within a predictable timeframe and at the same cost irrespective of destination. Paying from Athens to Helsinki will also be as easy as paying from Berlin to Frankfurt.
- **Direct debits to and from anywhere in SEPA:** If regular bills have to be paid in euro to a beneficiary in another SEPA country, consumers will be able to pay these bills from their home country bank account by direct debit. It will also open up many other possibilities for regular payments and subscriptions.
- **Use payment cards (debit and credit) anywhere in SEPA:** when visiting another country, provided the retailer accepts the card, consumers will in principle be able to pay with their payment cards as they would at home. Similarly consumers will be able to use cards to make withdrawals from cash machines
- **Crediting of the full amount:** the full amount specified shall be credited without any deduction to the beneficiary.
- **Faster payments:** Under the Payments Services Directive, by 2012 at the latest, monies must be credited to a recipient's account at the latest by the end of the next business day (i.e. 'D+1' rule).
- **Immediate use of payments received:** the practice of value dating to the disadvantage of the user is no longer permitted; so when payment monies are credited to an account, a recipient will have full and immediate use of the monies.

and the ECB as well as by Gerard Hart-sink who urged "corporate customers, SME's and the public sector to support - not only in words but in actions - the migrations of national euro payment instruments to SEPA payment instruments."

### Economic benefits

Impact studies undertaken by the Commission and the European Central Bank indicate that SEPA will create huge benefits. The study carried out by CapGemini for the Commission shows that the potential benefits from SEPA in payments markets alone could exceed 123 billion euro over the next six years, and could provide a further 238 billion euro if SEPA can be used as a platform for electronic invoicing.

A short migration period with a rapid changeover to the new SEPA products will accelerate cost savings for banks and infrastructures. The estimated operational cost savings to banks are almost five times greater than the required investments. Rapid implementation will reduce the duplicated costs incurred when operating existing legacy payment systems as well as the new SEPA systems during the migration period

In this light, rapid migration lies in the best interest of all SEPA actors, i.e. banks, corporates, retailers, public administrations as well as consumers. Early adopters can gain a competitive advantage over slow adopters.

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The studies also show that the process of SEPA migration will be a challenge, especially for banks. According to the Commission and ECB studies, banks may significantly reduce their costs, but will face increased competition. On the other hand SEPA will also offer banks an opportunity to market new, value-added services related to the payment chain, such as e-billing and e-invoicing.

Ms Gertrude Tumpel-Guggerell of the ECB recognised the challenges and opportunities ahead: "It is not time to sit back in admiration; it is time to use SEPA.

So let's rise to challenge; let's use SEPA, our key; and let's discover the great many opportunities that lie on the other side of the door."

The Commission and the ECB are therefore encouraging the banking sector to maintain momentum in the SEPA process so that users can migrate quickly in a market-led process to the new SEPA payment instruments.

### Co-regulation

Speaking at the SEPA launch event in Brussels 28 January, Michel Pébereau (BNP Paribas) chair of the European Banking Federation said that SEPA is a perfect example of what co-regulation can achieve.

"The migration towards a pan-European environment must continue to be market driven," he stressed. "Banks have played their full role so far and they will continue to do so."

He also called for the rapid implementation of the Payment Services Directive which has a bearing on direct debit transactions and stressed the need for legal certainty in areas such as multilateral interchange fees (MIF) which underpin card business. This issue was also taken up by Mr. Jean-Paul Gauzès, member of the European Parliament, who pointed to the efficiency and security of existing national debit card schemes and the requirement for proper remuneration without which there would be no innovation and investment.

Chris De Noose of the European Savings Bank Group which represents thirty percent of the retail banking market in Europe, said that his member banks have invested considerable resources as SEPA will promote more competition, efficiency and innovation.

"Not only is it a good example of co-regulation of the banking industry with authorities," he said, "but it also means

co-responsibility for the future - that it becomes a real success. Now the baby has to grow into an adult.

"We all have an interest in migrating as soon as possible to the SEPA project and also, as savings bank we have a huge task to inform the people of the advantages of SEPA."

Jean-Michel Godeffroy, Director General, Payments and Market Infrastructure, ECB, highlighted the paradox that the big winners from SEPA will be the corporations but they had been slow so far to prepare for SEPA.

Henning Kagermann, CEO of the global enterprise software company SAP said that these projects were not simple for



Henning Kagermann of the enterprise software giant SAP said his company has been quick off the market developing the software solutions for large corporations. These have been in place for some months now.

corporates and people looked to his company as the market leader in enterprise application software to develop the necessary software solutions for corporations, banks etc.

"We stand in the middle between the customers and those who want to bring it to market and we have been quick off the mark," he said. "We have had the software solutions available since a few months for large corporations and for the mid-market. This will help fast penetration into the corporate world.

### Benefits for businesses

From 28 January 2008 businesses will be able to make faster euro credit transfers in the SEPA area. By end 2009, payments with direct debits will follow and businesses will be able to set up cross-border direct debits in euros between any two SEPA countries.

SEPA will also provide businesses with the following advantages:

- Need for only a single bank account: SEPA will help businesses simplify payment and treasury management, as all financial transactions can be done centrally from one bank account using SEPA payment instruments.
- Payments handling is simplified as all incoming and outgoing payments can use the same format.
- Cost and time savings by consolidating their payment management. This will improve cash flow management, reduce banking and working capital costs and open up wider access to the single market.

SEPA can be used as launch pad for a development of value-added services such as e-invoicing and e-reconciliation, which will help businesses optimise their cash flow and accounting processes.

### Benefits for public administrations

As heavy users of payments, public administrations will in general experience the same benefits as businesses – i.e. faster credit transfers throughout the SEPA and, from November 2009, the new SEPA direct debits which can also be used for cross-border payments. SEPA can additionally help drive e-Government and e-procurement, thereby promoting more efficient public services.

### Benefits for banks

By providing new payment instruments in a common interoperable environment, SEPA will bring about further European payment integration and greater market efficiency. SEPA will allow banks to realise huge operational savings through product standardisation and channel simplification.

This enables economies of scale on a European level, reducing costs for processing and clearing and settlement. It also allows broader sourcing strategies to further decrease costs. The use of common standards by infrastructures will promote competition and thus allow banks to negotiate better services and better prices.

SEPA payment instruments will allow banks to expand their business and compete on a European level, as any bank can offer its services to anyone in SEPA. Banks will be able to extend their offering to customers through the provision of value-added services, such as e-billing and e-invoicing.

"Despite this," he cautioned, "the business case has to be demonstrated to corporates and additional value added services such as straight-through processing need to be added to the SEPA offering."

Mr Ziga Lavric, the State Secretary at the Slovenian Finance Ministry, stressed that public authorities can play an important role in helping push forward SEPA implementation and giving it the critical mass to make it a success, provided SEPA did not lead to a deterioration in the value characteristics of existing payment instruments. Furthermore, one of the keys, apart from removing legal obstacles is the development of value-added services to make SEPA fully worthwhile.

Mr. Jörgen Holmquist, Director General Internal Market and Services, in closing the SEPA Launch Event, thanked guests for their participation and encouraged everyone to go out and use the new SEPA payment instruments.

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