Single Euro Payments Area (SEPA): Frequently Asked Questions (See IP/08/98)

What is the Single Euro Payments Area (SEPA)?

The Single Euro Payments Area (SEPA) is the area in which citizens, companies and other economic actors will be able to make and receive payments in euros, within Europe, whether between or within national boundaries under the same basic conditions, rights and obligations, regardless of their location. In other words making euro payments throughout Europe will become as easy, cheap and secure as making national payments.

SEPA will harmonize the millions of everyday electronic payments made with credit transfers, direct debits and payment cards (debit and credit cards). SEPA will allow customers to make and receive non-cash euro payments anywhere in the SEPA (i.e. EU 27, plus Iceland, Liechtenstein, Norway and Switzerland), using a single bank account and a single 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.

The Single Euro Payments Area is an initiative of the European banking industry, represented by the European Payments Council, that is strongly supported by the Commission and the European Central Bank (ECB). The Commission and the ECB see SEPA as an integrated market for payment services which is subject to effective competition and where there is no distinction between cross-border and national payments within the euro area (see IP/07/550). This calls for the removal of all technical, legal and commercial barriers between the current national payment markets.

Why do we need SEPA?

Since 1 January 2002, consumers have been paying with euro banknotes and coins in the euro area, irrespective of the country. While cash payments can be made across borders, non-cash or electronic payments generally only work well at national level. As a result cross-border electronic payments remain more complicated, take longer to execute or simply do not exist (e.g. a cross-border direct debit). Inefficient cross-border payments mean that full benefits of the single market cannot be exploited.

By harmonising the European retail payments markets, corporates, public administrations, SMEs and consumers will be able to send and receive euro payments easily, safely and efficiently throughout the SEPA. This harmonisation will create efficiency gains for society (through economies of scale), drive competition (because there are no technical, legal and ‘business rules’ barriers anymore), and stimulate innovation (e.g. e-invoicing, on-line and mobile payment initiatives, etc.). SEPA is a natural consequence of the introduction of the euro and is necessary to complete monetary integration.
What are the benefits of SEPA?

SEPA will provide very substantial economic benefits. Payments are essentially a volume-related business. 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. Together, these will reduce the cost of payments to payment service users. Major payment service users, such as corporates, public administrations, retailers and SMEs should benefit from improved business efficiency and reduced operating costs linked to payments. They will be able to conduct all euro payments from a single account at a single location, thus reducing the number of bank accounts and improving liquidity management.

SEPA is a hugely important project and is the equivalent of the euro launch for electronic means of payments. The estimated potential benefits\(^1\) to the market over the next 6 years are enormous, 123 billion euros for payments in the next 6 years and a further 238 billion euros, if SEPA can be used as a platform for electronic e-invoicing.

SEPA could also be used as a platform for e-purchasing and trade financing. In the public sector, SEPA could be used to drive e-Government and the development of transactional services in the areas of e-procurement, taxation and customs.

Overall, SEPA will increase the competitiveness of European business and the financial sector as well as bring about the integration of payments markets in the EU, which was identified in 2000 as one of the key measures to achieving the goals of the Lisbon Agenda.

Benefits for Consumers

Consumers will be able to make their euro payments throughout the SEPA 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 will provide the following advantages\(^2\) to consumers:

Convenient credit transfers throughout SEPA: 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 be as easy as paying from Lisbon to Vienna, or from Berlin to Frankfurt.

Direct debits to and from anywhere in SEPA: if a holiday home is rented on a long-term basis or if regular bills have to be paid in euro to a beneficiary in another SEPA country, consumers are 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, such as foreign newspapers or magazines.

\(^1\) [http://ec.europa.eu/internal_market/payments/sepa/ec_en.htm](http://ec.europa.eu/internal_market/payments/sepa/ec_en.htm)
\(^2\) Many of these benefits are mandated through the Payments Services Directive or PSD (2007/64/EC, OJ L 319) which was adopted inter alia to provide the legal framework for SEPA. The text of the PSD can be found at: [http://ec.europa.eu/internal_market/payments/framework/psd_en.htm](http://ec.europa.eu/internal_market/payments/framework/psd_en.htm)
Use payment cards (debit and credit) anywhere in SEPA: when away on holiday or visiting another country, consumers will in principle\(^3\) be able to pay with their payment cards as they would at home. Consumers will not need to carry around lots of cash, since they will be able to use their payment cards anywhere at anytime, or to make withdrawals from cash machines, just as if they were at home.

**Faster payments:** Initially SEPA payments, including cross-border payments, will have a maximum execution time of three business days (i.e. "D+3" rule). Under the Payments Services Directive, by 2012\(^4\) at the latest, monies must be creditted to a recipient's account at the latest by the end of the next business day (i.e. "D+1" rule). This is a significant reduction compared to the maximum execution time of cross-border payments today which can take up to 5 business days.

**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.

**Crediting of the full amount:** the full amount specified shall be credited without any deduction to the beneficiary. This provides legal certainty with respect to the fulfilment of any underlying obligation. (Although most banks do not charge for the receipt of credit transfers, banks will be allowed to continue this practice. However, if banks do so, the amount charged will have to separately shown and deducted).

**Benefits for businesses**

As from today businesses will be able to make faster euro credit transfers in the SEPA. By end 2009, payments with direct debit will follow and businesses will be able to set up cross-border direct debits in euros between any two SEPA countries. SEPA will also help businesses simplify business management, as all financial transactions can be done centrally from one bank account using SEPA payment instruments. This avoids maintaining many bank accounts in different countries, which can lead to extra costs, delays and inefficiencies. Payments handling will also be simplified as all incoming and outgoing payments can use the same format. Companies can also save costs and time 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. Value-added services such as e-invoicing and e-reconciliation can be developed over time within the SEPA environment and will help businesses optimise their cash flow and accounting processes.

Other advantages for businesses and retailers include:

- **Credit transfers to any beneficiary in SEPA:** a credit transfer is often used by businesses both for sending and receiving payments. With today’s SEPA launch, euro credit transfers are made in the same way throughout SEPA. In general businesses will be able to benefit from the same maximum execution times and other advantages as consumers, but will have contractual freedom to negotiate different terms and conditions.

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\(^3\) Retailers and merchants enjoy contractual freedom and will therefore retain the right to decide whether or not to accept a payment card

Direct debits from anywhere in SEPA: businesses usually prefer to collect regular bills by means of a direct debit because it is cost-efficient and allows payment automation. However, today it is not possible to set up a cross-border direct debit for these customers in the same way as for a domestic customer. With SEPA this will change and it will become possible to set up cross-border direct debits in euros between any two bank accounts anywhere in the SEPA, enabling businesses to bill customers regularly on a cross-border basis. For legal and technical reasons, SEPA direct debits will come into use by November 2009.

Wider acceptance of payments cards: Cards have become a popular payment instrument. However, to accept card payments, merchants need an agreement with the bank which ‘acquires’ the card payment, i.e. pays the merchant and processes the payer information and forwards it to the clearing infrastructure. SEPA will allow acquirers to process all SEPA-compliant card payments, even across borders. SEPA will also encourage the standardisation of point-of-sale terminals in the euro area. Merchants will be able to accept a wider range of cards with a single terminal, and be able to choose any suitable bank within SEPA to acquire their card payments. This will increase competition, stimulate sales and drive costs down.

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.

How will the SEPA be created?
SEPA aims to create an integrated market for payments in euros throughout the EU and in the neighbouring countries of Iceland, Liechtenstein, Norway and Switzerland. This entails the removal of all technical, legal and commercial barriers between current national payment markets. By creating open and common standards, fostering competition and improving payment services, SEPA will lead to a more efficient and competitive payments industry.

The legal barriers have been addressed by the Payments Services Directive which provides a harmonised legal framework for payment services in the EU.
The technical and commercial barriers are being addressed by the banking industry through the aegis of the European Payments Council.

Individual banks will then need to develop and market the new SEPA payment instruments (using the new standards) to their customers who will migrate in a market driven process from the existing national payment instruments to the new SEPA payment products.

**When will SEPA start?**

SEPA will be created in a progressive process from 2008 as customers migrate from existing national payment instruments to the new SEPA payment products.

**Credit transfers:** The SEPA will be officially launched on 28th January 2008, when the first SEPA payment instrument for credit transfers will be offered in the market.

**Direct debits:** For technical and legal reasons, the launch of the SEPA payment instrument for direct debits will take place subsequently, but should occur no later than 1 November 2009.

**Card payments:** For card payments, the SEPA Cards Framework has been in force since 1 January 2008. Some payment cards are already SEPA compliant today. Under the SEPA Cards Framework as of 1st January 2008 banks will offer customers at least one payment card that is compliant with the SEPA Card Framework.

**When will SEPA migration be completed?**

The new SEPA products will gradually replace national payment products. Customers will be offered both old national instruments and the new SEPA instruments during the migration phase which will start in 2008. The aim is that a critical mass of payments have migrated over to the new SEPA payment instruments by the end of 2010. SEPA migration will therefore be progressive as banks market the new SEPA payment products and customers move from existing national payment instruments to these new products in a market-driven process.

However, retailers, businesses and public authorities will also need to make their own preparations. According to studies carried out by the ECB and the European Commission, a short migration period with a rapid changeover to the new SEPA products will accelerate cost savings for banks and infrastructures. This will reduce the duplicate 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 against slow adopters. However, in a natural migration process, the new SEPA products must have price/performance characteristics, at least as good, and preferably better, than existing legacy payment instruments.

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What will happen to existing national payment products?
As SEPA is a market-driven initiative, banks and infrastructures are free to continue offering existing national payment products. This means that during the migration period, customers will typically be offered the choice between the "old" national and the new SEPA instruments. However, a critical mass of payments is expected to have migrated to the new SEPA products by end 2010.

What is a SEPA credit transfer which was launched today?
A SEPA credit transfer is a payment initiated by the payer. A payment instruction is sent to the payer's bank (the originator's bank), which transfers funds to the payee's bank (the beneficiary's bank), possibly via several intermediaries.

The SEPA Credit transfer (SCT) scheme is an interbank payment scheme that defines a common set of rules and processes for credit transfers denominated in euros. The scheme defines a common service level and maximum execution time which financial institutions participating in the scheme must respect.

Features of the SEPA Credit transfer include:
- There is SEPA-wide reachability – any customer can be reached;
- There is no limit on the value of the payment;
- The maximum execution time is three business days (from 2012 one business day);
- The scheme is separated from the processing infrastructure;
- IBAN\(^6\) and BIC\(^7\) are used as account identifiers;
- There is a comprehensive set of rules for rejected and returned payments.

What is SEPA direct debit?
A SEPA direct debit is a payment initiated by the payee (the creditor) via the payee's bank after agreement between the payee and payer (debtor). This is based on an authorisation for the payee's bank and the payer's bank given to the payee by the payer for the debit of the payee's bank account. This authorisation is referred to as the 'Mandate'.

Direct debits are often used for recurring payments (such as utility bills) with a pre-authorised agreement signed by the payer (debtor). Direct debits can also be used for one-off payments where the payer (debtor) authorises a single payment.

The SEPA direct debit (SDD) scheme is an interbank payment scheme that defines a common set of rules and processes for direct debits denominated in euros throughout the SEPA from bank accounts designated to accept direct debits.

\(^6\) IBAN: International Bank Account Number. The IBAN contains ISO country code, like an international telephone number, two check digits (used for the validation of the complete IBAN) and the basis bank account number, which is derived from, but can not always be relied on the actual domestic account number. It comprises a maximum of 34 characters but has a fixed length per country, i.e. 16 characters in Belgium and 27 in France

\(^7\) BIC: Bank Identifier Code simply designates the payment beneficiary's bank. It adds to the information provided by the IBAN code. It usually consists of 11 characters, but sometimes only 8. The BIC is also known as the SWIFT code or address
Are card payments affected by SEPA?
The EPC itself is not introducing a new card scheme but has created a Framework\(^8\) (the SEPA Cards Framework) that should be adopted by all SEPA card-schemes and banks who issue and/or acquire cards as of 1\(^{st}\) January 2008. The SEPA Cards Framework supports the introduction of CHIP and PIN (Personal Identification Number) throughout the SEPA to enable secure card transaction authorisations. It has been designed to ensure the widest possible acceptance of cards at retail points of sale and ATMs (Automatic Teller Machines) throughout the SEPA.

What is the relationship between the Single Euro Payment Area (SEPA) and the Payment Services Directive (PSD)?
Payments and related services are currently subject to different legal frameworks in the Member States. But the SEPA is an integrated payments market and requires a common legal basis. This common legal basis will be established by the Payment Services Directive (PSD). The Directive will greatly facilitate the operational implementation of SEPA instruments by the banking industry, as well as their adoption by end-users, by harmonising the applicable legal framework.

However, the Directive has a wider scope covering payments made in any currency, and is not limited to euros only. By 1 November 2009 at the latest all EU Member States need to transpose the PSD into national law.

Which countries participate in the SEPA?
All countries that have adopted the euro will migrate from national payment instruments to SEPA payment instruments. This change will affect both domestic payments as well as payments made across borders to other SEPA countries. The essence of SEPA is to eliminate differences between national and cross-border payments and thereby create a Single Euro Payments Area with a harmonized set of payment instruments.

Banks in non-euro countries that are part of the European Union or the European Economic Area, plus Switzerland, have chosen to be part of the SEPA so that their citizens and businesses will be able to use SEPA instruments for euro payments. The non-euro countries are free to use the SEPA instruments for payments in their own respective currencies.

Will SEPA evolve?
Yes. The SEPA project must be forward looking, embracing and enabling new technology\(^9\). Value-added services, such as e-invoicing and e-reconciliation will maximise the benefits of the core SEPA products. SEPA is therefore not a ‘one-shot’ operation. SEPA is the new (retail) payment market for euro payments. It will constantly evolve with new technological developments and innovations.

\(^8\) http://www.europeanpaymentscouncil.eu/documents/SEPA%20Cardsframework_027_05_Version2%200.pdf
The first step, the realisation of the SEPA itself, concerns the migration towards the SEPA credit transfer and the SEPA direct debit as well as the implementation of the new rules for card transactions and clearing & settlement infrastructures. The next focus will be on the customer-to-bank and bank to customer domains and the development of SEPA-wide value-added services (e.g. structured remittance information, online and mobile payment initiation, e-invoicing etc).

These services will provide even more substantial benefits and make life even easier for customers and banks, as paper is eliminated from the payment process and end-to-end straight-through processing (STP) achieved. This next step is called "eSEPA".

What is the role of the European Commission?

The European Commission strongly supports the SEPA project and has proposed the legal framework for SEPA with the Payment Services Directive (PSD). Although SEPA is a market-driven project, given the importance and the size of the social and economic benefits of SEPA, the Commission expressly reserves the right to introduce or propose necessary legislation to achieve it.

An efficient payments system is crucial to the proper functioning of the Single Market. SEPA is therefore vitally important for the further success of the Single Market. SEPA will improve the efficiency of the payment system and increase competition. SEPA can also provide a platform for automating business processes linked to the payment chain such as e-invoicing, thereby improving the competitiveness of the European economy.

What is the role of the ECB/Eurosystem?

The Eurosystem (i.e. the European Central Bank and the national central banks in the euro area) actively support and promote SEPA. They provide guidance to the banking sector in order to develop an infrastructure in the best interests of Europe. The Eurosystem is working to ensure that SEPA is attractive to customers and supports and assists in the migration and communication period.

What is the role of the European Payments Council (EPC)?

European banks established the European Payments Council (EPC) in 2002 to coordinate the definition and implementation of SEPA. The EPC has defined specific rules, practices and standards (called 'schemes') for SEPA Credit Transfers and SEPA Direct Debits. The EPC has also defined a framework for card payments and a framework for the clearing and settlement of payments. These are the building blocks of SEPA.

The EPC is a self-regulatory body comprising more than 65 European banks, including the three European credit sector associations and the Euro Banking Association. Besides the EU countries Iceland, Liechtenstein, Norway and Switzerland are also represented.

10 Add reference to Memo on Capgemini study
11 http://ec.europa.eu/internal_market/payments/framework/index_en.htm
Where can I find out more information on the SEPA project:

Dedicated SEPA website: [www.sepa.eu](http://www.sepa.eu)

European Commission:

European Central Bank:

European Payments Council:
[http://www.europeanpaymentscouncil.eu/content.cfm?page=sepa_vision](http://www.europeanpaymentscouncil.eu/content.cfm?page=sepa_vision)