



Sole survivor

THE FUTURE OF NATIONAL PAYMENTS SYSTEMS IS BLEAK IN LIGHT OF THE EUROPEAN COMMISSION DEADLINE FOR THEIR REPLACEMENT BY SEPA. BUT, AS **WILL SPINNEY** REPORTS FROM THE INTERNATIONAL CENTRE FOR BUSINESS INFORMATION'S SEPA CONFERENCE, HELD IN BRUSSELS IN DECEMBER 2010, SEPA'S PROBLEMS HAVE NOT GONE AWAY.



The European Commission wants a deadline for eliminating national payment systems in due course. However, there are still many issues surrounding the Single Euro Payments Area (SEPA), with progress being governed not so much by corporations as consumers, who do not understand SEPA or its benefits.

This conference took place just before the European Commission set an end date "for the migration of the old national credit transfers and direct debits to the recently created SEPA instruments". It's a deadline that has been greeted enthusiastically by most market participants and should allow banks, corporations, small and medium sized enterprises (SMEs) and individuals to prepare properly. Nevertheless, all may not be plain sailing from here.

For a start, the Commission's proposal must go to the European Parliament and member states for consideration. Only if and when it is approved will SCT (SEPA Credit Transfer) and SDD (SEPA Direct Debit) be phased in, in 12 and 24 months respectively.

The conference also heard that there was some political opposition to SEPA. In Germany, for example, some politicians do not wish to lose the BLZ (Bankleitzahl, the German bank code system that everyone understands) to IBAN (International Bank Account Numbers, which no-one understands). Meanwhile the world is moving to greater simplicity; with the PayPal online payment service, for instance, only an email address is required.

There may well be enormous resistance to changing things that work well, such as the German giro credit system,

especially if the replacement is more expensive. There may even be a move to cash payments, as for consumers they may be cheaper. There are also very different approaches to payments psychology, especially in the consumer area. In Germany, for example, direct debits are widespread whereas in Finland they are extremely unusual.

The conference learned of enormous confusion over the IBAN and BIC (Bank identifier Code). Even bankers don't understand the need for a BIC. The EU documents also show confusion, and implementation of IBAN from national systems could be a nightmare. There is yet more confusion over whether any qualifying distinction is being made in regulation between high-value and low-value or urgent and non-urgent transactions.

From mini to maxi, with a hint of midi

Just before Christmas the draft EU regulation on the SEPA migration end date was delivered from the snowy wastes of Brussels, writes *Bob Lyddon of international banking alliance IBOS Association*.

The regulation is the result of a consultation process lasting many months, triggered by the slow progress on SEPA. The first draft seemed to promise a slow migration, a mini-SEPA, which left too many issues uncovered.

SEPA's hemline has dropped dramatically in the new version, which is as near to a maxi-SEPA as a regulation can dictate, and within quite compressed timescales. The regulators seem to like November for payments industry deadlines – it is the customary date for SWIFT standards changes to go live – so the likely concrete timeline is:

- November 2011 – regulation comes into effect.
 - November 2012 – migration date for credit transfers.
 - November 2013 – migration date for direct debits.
 - November 2014 – migration date for "niche" schemes.
- Where a payment scheme has special features but has either a credit transfer or direct debit embedded in it, then the embedded element needs to migrate in accordance with the above timescales although the superstructure of the scheme does not have to migrate at all.

These timescales are compressed given the level of take-up of the schemes now: credit transfers 9%, direct debits below 1% and niche schemes 0%.



Despite the drive for a single European standard, there are national differences in the implementation of SEPA – even by the same bank in different countries. In France, where efforts have been made to move to SDD, the results have been chaotic, with a high level of rejected payments due to missing mandates or contracts and confusion over first/recurring payments. This highlights enormous legal issues over direct debit mandates and whether old mandates are allowable for SEPA. If that is not the case, the effort to get new ones in place could be almost prohibitive.

Meanwhile in Italy the difference between business and consumer DD has floundered, with confusion about whether some businesses are families/individuals or real SMEs.

SEPA SPLINTERS SEPA is already fragmenting. In Finland, for example, extra fields have been added to the standard, creating a payment system in which other European banks cannot compete.

Confusion also still reigns over the OUR/SHA/BEN designation about who pays for costs of the transfer. There is evidence of overcharging by some banks (German and Spanish banks were picked out) and indeed some illegal activity by banks including lifting fees. Some corporate customers still seem to prefer to pay for bank charges through value dating and specifically request it. The Payment Services Directive (PSD) does not address how intermediary payment institutions are rewarded. And there are still problems on payments coming into the EU.

The emphasis has been on payments and message formats but reporting data to allow straight-through processing (STP) in receivables ledgers seems of lower priority and treasurers have reported complete loss of data on collections.

Much of the talk at the conference was of new technology, especially mobile payments, e-invoicing and real-time payments. There is a groundswell of support for real-time payments, with certainty of payment important for retailers and corporations with rapidly moving credit risk issues. Treasurers would also like real-time liquidity information and many do not understand why payments would take so long. Never mind D+1 – H+0 seems the new aim!

A potentially big barrier includes the failure to address the card market, where much of the innovation and value add for payment institutions might lie. And there was criticism of the European Payments Council (EPC) generally for its lack of consultation in making decisions and its narrow representation in membership. Central bank reporting (mandatory in some countries but with differing regulations) is also in essential conflict with SEPA and there were calls for its abolition. The conference identified a further risk that annual updates of standards might wreck system stability.

In short, while the announcement of an end date is welcomed in the industry and will allow payment providers to concentrate on implementation, progress may be limited by many issues. Ultimately success will be down to consumer demands rather than corporations.

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The SEPA low-down

Bob Lyddon of IBOS Association picks out the highlights of the draft regulation:

- The draft regulation applies to all euro credit transfers and direct debits where both endpoints are in the EU – urgent and non-urgent.
- There are some out-of-scope elements but they are described as being fairly insignificant. However, one would need to know in concrete terms how schemes like RIBA (the Italian Ricevuta Bancaria Elettronica electronic collection scheme) and LCR (liquidity coverage ratio) are to be classified – as niche or as special schemes that have direct debit embedded – because the migration path differs.
- The migration targets are schemes based on the ISO 20022 XML standard (as defined in the regulation) to which most payment service providers in a majority of EU countries adhere, and whose rules are the same for both national and cross-border payments.
- The EPC schemes are not explicitly mentioned, but it is hard to see how another scheme could reach the qualification threshold.
- It might be an issue for payment service users that the regulation creates a de facto monopoly for the EPC schemes, even it does not create a de jure monopoly.
- The phrase “based on the ISO 20022 XML standard” could create a loophole through which all types of variation squeeze, such as adoption of “white fields” (value added services or additional optional services) or alternative definitions of “yellow fields”, to use the EPC’s notation.
- All interbank messaging for credit transfers and direct debits must be in physical XML.
- All customer-to-bank traffic in which individual credit transfers and direct debits are bulked must be in physical XML.
- Direct debits must use the creditor mandate flow; a debtor mandate flow would not comply with the relevant wording.
- No multilateral interchange fees on direct debits collections at all.
- Multilateral interchange fees on direct debit fails (R-transactions) will be permitted, but under stringent conditions.

A number of these provisions represent a trenchant decision in favour of one lobbying group and against the wishes of another. There are major differences in position between the stakeholder groups – commercial banks, retail banks, corporate customers, consumers, and trade/SME customers. It will simply not be possible to have a regulation that satisfies all interest groups.

Possibly brought on by the sovereign debt crisis and the prevailing opinion at the EU that it has to show leadership and take the integration all the way, the decision is to go for quick harmonisation with a minimum of exceptions: the maxi-SEPA line.

