Launched in November 2009, the SEPA Direct Debit Core Scheme (SDD Core) and the SEPA Direct Debit Business to Business Scheme (SDD B2B) create for the first time a payment instrument that can be used for both domestic and cross-border collections throughout SEPA. SEPA stands for Single Euro Payments Area. The SEPA payment schemes are developed by the European Payments Council (EPC), the decision-making and coordination body of the European banking industry in relation to payments.

This publication summarises the main features of the SEPA Direct Debit Schemes including their key benefits. For a definitive source of information regarding the rules and obligations of the schemes, refer to the SDD Scheme Rulebooks and the accompanying Implementation Guidelines approved by the EPC available for download on the EPC website at www.epc-cep.eu / SEPA Direct Debit.

The SEPA Schemes define sets of rules and standards for the execution of SEPA payment transactions that have to be observed by payment service providers (PSPs). The SEPA Schemes are set out in the SEPA Scheme Rulebooks approved by the EPC. These Rulebooks can be regarded as instruction manuals which ensure a common understanding between PSPs on how to move funds from account A to account B within SEPA.

The particular SEPA payment products and services offered to the customer are developed by individual PSPs or groups thereof operating in a competitive environment. The SEPA Schemes provide the flexibility and options which enable PSPs to add features and services of their choice to the actual payment products.
The SDD Core Scheme – like any other direct debit scheme – is based on the following concept: “I request money from someone else, with their prior approval, and credit it to myself”. The payer and the biller must each hold an account with a payment service provider (PSP) located in SEPA\(^2\). The accounts may be in euro or in any other SEPA currency. The transfer of funds (money) between the payer’s bank and the biller’s bank always takes place in the euro currency.

The SDD Core Scheme allows a biller to collect funds from a payer’s account provided that a signed mandate has been granted by the payer to the biller. The payment service providers executing the direct debit transaction must formally participate in the SDD Scheme. The SDD Scheme may be used for single (one-off) or recurrent direct debit collections, the amounts are not limited.

Even exceeding the requirements of the Payment Services Directive (PSD), the SDD Core Scheme grants payers a “no-questions-asked” refund right during the eight weeks following the debiting of a payer’s account; e.g. during this time any funds collected by SDD Core will be credited back to the payer’s account upon request. In the event of unauthorised direct debit collections, the payer’s right to a refund extends to 13 months as stipulated in the PSD.

Keeping in mind that the process of collecting a payment by direct debit is initiated by the biller, the biller (and, in consequence, the biller’s bank) must respect the following timelines under the SDD Core Scheme: the payer’s bank must receive the request for a first direct debit collection or for a one-off direct debit collection the latest five business days prior to the due date. For subsequent direct debit collections, the payer’s bank must receive such a request the latest two business days prior to the due date.

The SDD B2B Scheme

Main differences between the SDD Core Scheme and the SDD B2B Scheme:

- The SDD B2B Scheme enables business customers in the role of payers to make payments by direct debit. The most important differences between the SDD Core Scheme and the SDD B2B Scheme are:

  - Services and products based on the SDD B2B Scheme are only available to businesses; the payer must not be a private individual (consumer).
  - In the SDD B2B Scheme the payer (a business) is not entitled to obtain a refund of an authorised transaction.
  - The SDD B2B Scheme requires the payer’s bank to ensure that the collection is authorised by checking the collection against mandate information; the payer’s bank and the payer are required to agree on the verification to be performed for each SEPA B2B direct debit.
  - Responding to the specific needs of the business community the B2B Scheme offers a significantly shorter timeline for presenting direct debits and a reduced return period\(^3\).

The SDD B2B Scheme Rulebook includes the option to provide signatures of several persons with a SEPA mandate issued electronically. In the event of an electronic mandate with multiple signatures being issued, the SDD B2B Scheme extends the timeline allowed for the payer’s bank to verify the authenticity of such a mandate. This option responds to the fact that in the business environment a payment often has to be authorised by more than one person.

The SDD B2B Scheme fully supports the intra-European supply chain management of companies on the financial side and facilitates trade across the internal market.

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2 The technical terms used in the SDD Scheme Rulebooks refer to the payer as “debtor” and to the biller as “creditor”.

3 For details on the SDD B2B Scheme time cycle refer to the SDD B2B Rulebook, chapter 4.3.
Reachability

As mandated by EU Regulation (EC) 924/2009, every bank in the euro area must be reachable for cross-border direct debits; and thus for the SDD Core Scheme, by 1 November 2010. It is optional for banks to offer services based on the SDD B2B Scheme.

Benefits

Advantages for billers include:

- Collection of domestic and cross-border direct debits across SEPA
- Ability to determine the exact date of collection
- Payment completion within a pre-determined time cycle resulting in reliable cash flow
- Straightforward reconciliation of payments received
- Ability to automate exception handling (refunds, returns, rejects)

Advantages for payers include:

- Simple and secure means of paying bills throughout SEPA
- Easy reconciliation of debits on account statements
- Payers avoid dealing with the consequences of late payments

Specific features of the SEPA Direct Debit Schemes

IBAN and BIC

IBAN (International Bank Account Number) and BIC (Business Identifier Code) are the only permissible account and bank identifiers for SEPA transactions. Whereas until now they have been used only for cross-border payments in most countries, with SEPA this applies to domestic payments as well. The biller, therefore, has to provide IBAN and BIC of the account that should be debited to his bank as set out in the ‘Regulation (EU) No 260/2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009’.

Mandate

A mandate is signed by the payer to authorise the biller to collect a payment and to instruct the payer’s bank to pay those collections. Payers are entitled to instruct their banks not to accept any SEPA direct debit collections on their accounts. The mandate can be issued in paper form or electronically. The mandate expires 36 months after the last initiated collection. The signed mandate must be stored by the biller as long as the mandate is valid but at least for 14 months after the last collection.

4 The term “bank” is used in a non-discriminatory fashion and does not exclude payment service providers other than banks.
The biller must send a so-called pre-notification, an invoice for example, to the payer at least 14 calendar days before collecting the payment, unless a different timeline has been agreed between the payer and the biller. The pre-notification includes the due date and the amount of the collection. The pre-notification may be sent only once even for recurrent direct debit collections if the due dates and the amounts of future collections are stated. For example: a publisher (biller) may send a single pre-notification annually to the newspaper subscriber (payer) if this pre-notification states that the amount of the monthly subscription fee will be collected on the first day of each month.

Each biller in SEPA will be identified with a creditor identifier. This identifier, in connection with the mandate reference, allows the payer and the payer’s bank to verify each SEPA direct debit and to process or reject the direct debit according to the payer’s instructions. Billers will have to request this identifier according to local practice.

The SDD Schemes allow payers and billers to anticipate the precise date (due date), when their account will be debited or credited, respectively. The due date is assigned by the biller.

The SDD Schemes include the possibility to create mandates through the use of electronic channels. The e-mandate brings further advantages to payers: the payer avoids the inconvenience of printing, signing and mailing a paper form by using a fully electronic process. The e-mandate facility is based on secure, widely used online banking services of the payer’s bank and is an optional service offered by payment service providers.


In February 2012, the European legislator adopted the ‘Regulation (EU) No 260/2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009’ (the SEPA Regulation), which defines 1 February 2014 as the deadline in the euro area for compliance with the core provisions of this Regulation. In non-euro countries, the deadline will be 31 October 2016. Effectively, this means that as of these dates, existing national euro credit transfer and direct debit schemes will be replaced by SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD). The majority of market participants recognise the value of setting a deadline for migration to harmonised SEPA payment schemes through European Union Regulation.