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Gerard Hartsink
Chair of the European Payments Council

Ready for Roll-out
The SEPA Process moves from Design to Migration

EPC SEPA Direct Debit Launch Event
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Ladies and Gentlemen,

On behalf of the EPC I would like to thank Miss Gertrude **Tumpel-Gugerell**, member of the Executive Board of the European Central Bank, EU Commissioner **Charlie McCreevy** as well as the **members of the European Parliament** and our **colleagues of the EPC Customer Stakeholders Forum** for joining us today.

Today is a great day in the SEPA calendar. **All building blocks necessary to complete the Single Euro Payments Area are now in place The payments industry delivered – as requested by the political drivers of the SEPA process –** the harmonised schemes and frameworks necessary to make electronic euro payments within and across the 32 countries that make up SEPA.

The European legislator has put in place the Payment Services Directive which aims to establish the required common legal framework. Most importantly, **customer representatives are increasingly engaged** in the process– at national and at European level – and are making their voices heard. As a result, **today we are very close to the mountaintop**. Perhaps the remainder of the way will not be as easy as a walk in the park. However, **provided that we move ahead jointly** and each party takes the necessary action I am positive that **we will get there.**

The European banking industry is about to take **another major step** in this direction.

On 2 November 2009 the European Payments Council launches the SEPA Core Direct Debit Scheme and the SEPA Business to Business Direct Debit Scheme. Banks throughout SEPA are now gradually starting to deliver SEPA Direct Debit services to their customers. All branches of **banks in the euro area must be reachable for SEPA Core Direct Debit by 1 November 2010** as mandated by the EU Regulation on cross-border payments in the Community.

The EPC is proud to confirm a **successful kick-off**: to-date **2607 banks** representing about **seventy per cent of SEPA payment volumes** have signed up to the new schemes and are ready to roll-out SEPA Direct Debit services from 2 November 2009 onwards. Of those, **2366 banks are offering both SDD Core and SDD B2B services**. SEPA Direct Debit services enable customers **– for the first time ever –** to make and receive both domestic and cross-border **euro direct debit payments throughout the 32 SEPA countries**, that is the 27 EU Member States, Iceland, Liechtenstein, Norway, Switzerland and Monaco.

Ladies and gentlemen, the launch of the SEPA Direct Debit Schemes **demonstrates the continued commitment of the European payments industry** to the creation of one single domestic euro payments market and its ability to deliver on time the euro payment schemes that are the foundation of SEPA. This crucial juncture on the road to SEPA could only be reached thanks to the **dedicated work of the payment experts cooperating in the EPC SEPA Payment Schemes Working Group**. On a daily basis, the members of this EPC Working Group manage to **bridge different payment practices and customer expectations** whilst going through the painstaking process of forging agreement on the countless technical and procedural details that make up a payment scheme.

The EPC has truly mastered the art of European consensus-building: at the end of the day, European integration is only possible if all parties engaged in the process are willing to aim for a **solution that caters to the majority**. In this context, the endeavour of defining a European direct debit scheme requires the ability to differentiate between the needs of particular customer segments in specific national markets on the one hand and the overall requirements of the broader customer base on the other.

As such, **building a payment scheme can be compared to designing a car model**: it is important that the basic model meets key market requirements. At the same time the model must include options to add extras on demand. This concept provides **maximum choice to customers while preventing a majority of customers to have to buy features they do not need.**

The SDD schemes delivered by the EPC in close dialogue with the customer community are based on this concept: **the SEPA Direct Debit builds on a direct debit model widely used and trusted by millions of bank customers in Europe**. The EPC, however, recognises that **different legacy direct debit models exist today**. To ensure a smooth transition for all bank customers, the SEPA Direct Debit schemes include options allowing banks to meet specific customer needs based on different national direct debit schemes in place today.

The roll-out of the SEPA Direct Debit is a key element of the integrated euro payments market considering that the **direct debit is a major payment instrument widely used in many euro area countries**. From a consumer's perspective it is convenient not to have to deal with the consequences of late payments. The SEPA Direct Debit enables consumers to know exactly when their account will be debited. Given the "no-questions-asked" refund right, the **SEPA Direct Debit gives the consumer complete control over the payment.**

It is for the benefit of the economy as such if invoices are paid when they are due. **The SDD schemes allow billers to collect payments on the exact date when payments are due.** As such, the SEPA Direct Debit facilitates reliable cash-flow for businesses of all sizes. The SEPA Business to Business Direct Debit in particular supports the intra-European supply chain management of companies while boosting trade across the internal market. The SEPA Direct Debit is therefore a **convenient, secure and efficient means of payment for billers and payers** alike.

Ladies and gentlemen, as mentioned before, with the launch of the SEPA Direct Debit Schemes the **key elements required to create the Single Euro Payments Area are now available**:

- The **SEPA Credit Transfer Scheme** went live in January 2008. Today, more than 4500 banks are offering SCT services across SEPA.
- With the roll-out of the SEPA schemes European banks are the first in the world to deploy a new global data format — the **ISO 20022 message standards —** for mass euro payments. This innovation is likely to have an impact far beyond Europe, as corporates

and banks in Asia and in the Americas have already started to realise the global implications of 32 countries moving jointly towards this international standard.

- Substantial progress is being made as regards the implementation of the **SEPA Cards Framework**. The technical standards underlying the SCF ensure a high level of security when making card payments anywhere in SEPA.
- Anticipating changing customer habits, the EPC is developing solutions empowering consumers to **initiate SEPA payments online or by using their mobile phone**.
- At the same time, the EPC continues to push for a **Single Euro Cash Area** supporting more efficiency in the cash process cycle and increased use of electronic payment instruments with a view to reduce cash payments that are costly to society as a whole.

Following the introduction of euro notes and coins in 2002 **the political drivers of the SEPA process – EU governments represented in the ECOFIN[1], the European Commission, the European Parliament and the European Central Bank – called on the payments industry to bolster the common currency by developing a set of harmonised schemes and frameworks for electronic euro payments** designed to replace the multitude of national euro payment systems existing today.

In a joint statement in May 2006, the European Commission and the European Central Bank reiterated **– I quote**: "The European Commission and the European Central Bank share a common vision for the Single Euro Payments Area and the process leading to its realisation. Both institutions are co-operating closely in this process and encourage the European banking industry and the other relevant stakeholders to create the technical conditions for the realisation of SEPA by the end of 2010". **End quote.**

The payments industry has delivered.

[1] Economic and Financial Affairs Council

Ladies and gentlemen, we have come a long way and much has been accomplished on the road to SEPA. **However: this is still only the beginning**. Moving forward, the **focus must be on accelerating migration to the new euro payment instruments. To achieve this goal, joint action by all stakeholders and leadership by the public policy-makers driving the SEPA initiative is required**.

As the European public authorities emphasised on many occasions – such as today – SEPA is a huge opportunity for Europe. Also already **in May 2006, EU Commissioner Charlie McCreevy pointed out – I quote**: "If we are committed to the Lisbon Agenda, if we want to improve the competitiveness of the European economy, if we wish to rise to the challenges of globalisation and the emergence of new economic powerhouses, then I believe we have to maximise the potential of the single market. (...) the lifeblood running through our businesses and economy within the single market is our payments systems."[2] **End quote.**

- SEPA **strengthens the euro currency**.
- SEPA facilitates **trade across the internal market**.
- SEPA holds a **market potential of up to 123 billion euros** in benefits over 6 years with a significant upside for bank customers.
- The implementation of innovative and competitive SEPA payment services based on global ISO standards translates into **efficiency gains for businesses and public administrations, while consumers can rely on a single set of euro payment instruments covering 32 countries**: one bank account, one bank card, one SEPA Credit Transfer, one SEPA Direct Debit.
- The political authorities including the European Commission expect the benefits of this legal and technical harmonisation to transcend payments policy: the vision holds that SEPA sets an example for the **dematerialisation of business processes by replacing paper-based procedures with standardised electronic solutions** such as, for example, e-invoicing.

[2] Charlie McCreevy, European Commissioner for Internal Market and Services: "Banking regulation: Next steps". Address at the French Banking Federation Conference, Paris, 21 March 2006.

The SEPA vision, however, will not be realised through the existence of high-quality SEPA schemes and standards alone – and neither banks nor their customers should be blamed for that fact. The EU monetary union did not materialise by distributing euro notes and coins to the market hoping that those beloved national currencies would be enthusiastically abandoned. European integration is rarely carried forward by grassroots movements and SEPA is no exception to this rule.

SEPA was not started nor is it designed as a demand-driven process. Bank customers did not ask for the euro or for current euro payment instruments to be replaced. Existing payment services are generally viewed to be efficient, secure and cheap. Not surprisingly, therefore, eighteen months after the launch of the SCT, 4.4 per cent of all euro credit transfers in the EU are actually based on the SCT scheme. The **current rate of SEPA market uptake is in line with expectations** considering the average timelines required for the roll-out of other major EU integration initiatives. However, this figure clearly demonstrates that **the same public authorities that asked for SEPA must <u>now</u> create the incentives needed to facilitate the migration of customers to the new SEPA payment instruments**.

Banks will continue to enhance SEPA services and market them to customers who at this point are not exactly lining up to acquire them. **Selling the benefits of the EU internal market and monetary union, however, remains the responsibility of the European institutions** and EU governments.

This is the time to demonstrate the political leadership that SEPA deserves. **For the euro introduction, the relevant authorities carried out an implementation project that covered all aspects of the transitional period** during which both the national currencies and the euro were accepted. In addition, the replacement of existing cash for euro notes and coins in the entire euro area was coordinated and creative incentives to boost acceptance of the new currency were put in place. **Once a similar master plan for the roll-out of SEPA will be put in place in the EU member states, a smooth transition to SEPA will happen**.

As such, the **EPC urges European and national public authorities to take the necessary actions**. The SEPA Roadmap recently published by the European Commission is a positive step in this direction. **In a nutshell, the following measures are required**:

SEPA will only become a reality when a critical mass of transactions has migrated from national euro instruments to the new SEPA instruments. **To create a critical mass of SEPA payments it is therefore crucial that public administrations lead by example –** as was done for the euro introduction. The public sector is a prime economic actor and accounts for up to **20 per cent of electronic payments made in society**. Moving this volume to SEPA instruments would trigger SEPA implementation by other market participants.

Given the wider benefits for society, public administrations should therefore play a major role in kick-starting migration. As the European Commission stated in light of the latest findings regarding SEPA preparedness of the public sector published in July 2009: **public administrations across the EU do not fully meet expectations yet**. The EPC encourages public administrations to speedily remediate this situation.

In addition, **public administrations should require the use of SEPA standards when procuring payments services** allowing banks to deliver SEPA payments services to any public entity in the SEPA area. As a result, the public sector will benefit from increased competition in the euro payments market.

National governments should support migration to the SEPA Direct Debit by ensuring the continued legal validity of existing mandates under the SEPA Direct Debit Scheme. A mandate is completed by a customer authorising a biller to collect payments via direct debit. At the same time, the mandate includes the authorisation of the customer's bank to pay these collections. As requested also by the European authorities, in each country, a user-friendly and legally sound means of mandate migration has to be found. **If necessary, legislative solutions must be implemented.** Providing such solutions is a prime indicator of the commitment to SEPA demonstrated by national governments.

As regards specific government action supporting an easy transition to the SEPA instruments for customers the Belgian federal government has set the benchmark: The Belgian government **communicated positively** to familiarise the general public with the SEPA Credit Transfer. It also took **creative steps to generate substantial SEPA market uptake domestically.**

Communication on the benefits for society at large associated with EU integration including SEPA remains a key responsibility of the relevant European institutions. The EPC is therefore asking that the **political authorities now support a communication campaign to promote SEPA comparable in impact to what was done for the euro introduction**.

Political leadership, ladies and gentlemen, is also required with regard to the ultimate goal of SEPA: eventually, existing national payment services will be replaced by SEPA services. A transformation process of this dimension must be transparent and predictable. In fact, at this point, the majority of concerned parties share the view that one or several end dates for migration to SEPA services have to be defined to maintain SEPA momentum.

The **European Central Bank** recently observed that **– I quote** "corporations and public administrations still take a cautious approach" towards SEPA implementation". **End quote.** To break that circle of wait and see, the ECB proposes setting a migration end date from which point onwards only the European payment instruments will exist[3].

The European Parliament supports this position and called on the European Commission to set a **– I quote:** "Clear, appropriate and binding end date, which date should not be later than 31 December 2012, for migrating to SEPA products"[4]. **End quote.**

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[3] The Quest for the Holy Grail? – European Financial Integration: Achievements and Hurdles. Speech by Getrude Tumpel-Gugerell, Member of the Executive Board of the ECB. Workshop on "Securing the Future Critical Financial ICT-Infrastructure (CFI)" organized by Parsifal. Frankfurt, 16 March 2009.

[4] European Parliament. Resolution on the implementation of the Single Euro Payments Area (SEPA). 11 March 2009

The EPC also recognises the value of setting a **deadline for migration to SEPA**. An end date for phasing out legacy euro payment instruments creates **awareness**, ensures **planning security** for all market participants and confirms the **commitment to making SEPA a reality**. In the view of the EPC there should be **one migration end date for both SEPA Credit Transfer and SEPA Direct Debit at European level**. **Mandating an EU-wide end date requires EU regulation**. Such a regulation should oblige customers to use SEPA payment services rather than euro payment services based on the current national schemes, thereby not leaving migration responsibility only to the banking sector. In this context it should also be kept in mind: **migration to the euro would never have happened without a clear deadline for completion of the project**. The market is now awaiting **recommendations of the European Commission** on the most effective way forward in this matter.

Let me conclude: the banking industry has put in place the payment schemes and frameworks necessary to realise SEPA. Moving forward, the SEPA program will succeed based on continued co-regulation requiring the commitment of both the public and the private sectors.

Ladies and gentlemen: **this is the time to open wide the window of opportunity which SEPA represents first and foremost for bank customers throughout the single market**. So, let’s take a deep breath and get ready to take the last few steps leading to one integrated euro payments market. I will see you there - soon.

Thank you very much for your attention.

– ENDS –

About European Payments Council

The European Payments Council (EPC) is the decision-making and coordination body of the European banking industry in relation to payments. The EPC defines common positions for core payments services, provides strategic guidance for standardization, formulates best practices and supports and monitors implementation of decisions taken. The EPC consists of 74 members comprising banks and banking communities. More than 300 professionals from 32 countries are directly engaged in the work programme of the EPC, representing all sizes and sectors of the banking industry within Europe.

The EPC develops the payment schemes and frameworks necessary to realise the Single Euro Payments Area (SEPA). SEPA is an EU integration initiative in the area of payments designed to achieve the completion of the EU internal market and monetary union. SEPA is the area where citizens, companies and other economic participants can make and receive payments in euro, within Europe, whether within or across national boundaries under the same basic conditions, rights and obligations, regardless of their location. SEPA is currently defined as consisting of the EU 27 member states plus Iceland, Norway, Liechtenstein, Switzerland and Monaco.

For further information on the EPC please contact secretariat@europeanpaymentscouncil.eu or visit www.europeanpaymentscouncil.eu.