EPC Newsletter

OPINION AND EDITORIAL

The X Factor

Are EU governments still committed to making SEPA a reality?

30.10.09 BY GERARD HARTSINK

In his speech at the EPC SEPA Direct Debit Launch Event on 13 October 2009 EU Commissioner Charlie McCreevy addressed the question of setting a deadline for migration to SEPA. Commissioner McCreevy reiterated: “I believe there are strong economic and societal arguments in favour of setting an end date.” However, the Commissioner admitted, “there still seems to be some political reluctance to discuss the issue. Most Member States hesitate to commit themselves and tie their hands at a moment where SEPA Direct Debit is still on its launch pad and the SEPA benefits are still theoretical”. In other words, the one party failing to take the action required to successfully complete SEPA are EU governments, which in their role as members of the Economic and Financial Affairs Council (ECOFIN) are the promoters of the SEPA concept. This sorry state of affairs is particularly regrettable from the perspective of bank customers: the benefits SEPA holds for them will only fully materialise if there is speedy migration to the new SEPA payment instruments. Gerard Hartsink reminds ECOFIN members on their original commitment to making SEPA a reality and concludes: SEPA is the brainchild of European policy-makers including EU governments. This is not the time for excuses. It is the time to bring this baby home.

SEPA history part I: EU governments request the integration of euro payment markets

The EPC gladly clarifies the facts yet again: it is a prevalent misunderstanding that European authorities and EU governments merely “support” the SEPA initiative. These public authorities actually invented the SEPA concept. SEPA is neither an “industry-led” nor a “demand-driven” programme; it is a co-regulation programme requiring the commitment of both the public and the private sectors.

Following the introduction of the euro notes and coins in 2002 the political drivers of the SEPA project called on the payments industry to bolster the common currency by developing a set of harmonised schemes and frameworks for electronic euro payments to replace the multitude of national payment systems existing today[1]. SEPA is a major policy-maker-driven EU integration initiative and, according to the political authorities, a prerequisite to transform the internal market into the leading knowledge-based economy globally.

This latter splendid idea was born at a summit of EU Finance Ministers in the year 2000 and ceremoniously enshrined in the so-called Lisbon Agenda. Specifically, the Lisbon Agenda[2] details the policy projects designed to realise this vision. An important element of this action plan agreed by EU governments is the introduction of SEPA. The Lisbon Agenda reiterates a request first pronounced in a European Commission report entitled “Making Payments in the Internal Market” which stated: “The full benefits of the single market will only be achieved if it is possible for business and individuals to transfer money as rapidly, reliably and cheaply from one part of the community to another as is now the case within most member states" [3].

SEPA history part II: European authorities request payments industry to take action

In December 2001 the EU Regulation 2560/2001 on cross-border payments in euro was adopted by the European Parliament and the Council following a legislative process pushing through this act in record time. The provisions of Regulation 2560/2001 prohibited banks from imposing different charges for domestic and cross-border payments or ATM withdrawals in the EU-27. Regulation 2560/2001 has also generally been understood as a turning point in the financial integration policy of the European legislator: beyond its formal stipulations, the Regulation at the time of its inception clearly intended to shock the banking sector into stepping up its efforts to achieve SEPA. At the time, the ECOFIN and the European Parliament made the assessment that banks had to speed up the development of the necessary harmonised payment schemes and standards.

In 2003, the European Commission launched a consultation on "on legal issues which may need to be harmonised at EU level to create a Single Payment Area"[4]. Ultimately, this process led to the adoption of the EU Payment Services Directive to be transposed into national law by EU Member States as of 1 November 2009.

In a joint statement in May 2006, the European Commission and the European Central Bank reiterated their "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".

In March 2009, the European Central Bank published the "Expectations of the Eurosystem as regards the future of SEPA" listing – again – the regulator's demands on the banking sector to this end[5].

Last and not least, in 2009 the European Parliament and the Council adopted the new EU Regulation on cross-border payments in the Community which repeals the above mentioned Regulation 2560/2001. The new Regulation, among others, forces banks headquartered in the euro area to be reachable for SEPA Core Direct Debits as of 1 November 2010.

SEPA history part III: the European payment industry delivers

The European banking industry supports the SEPA vision and has developed the necessary harmonised payment schemes and standards as promised in the EPC Declaration of 17 March 2005:

- The SEPA Credit Transfer Scheme went live in January 2008. Today, more than 4500 banks representing nearly one hundred per cent of SEPA payment volumes are offering SCT services across SEPA.
- The two SEPA Direct Debit Schemes are being launched in November 2009 and banks are starting to gradually roll-out SDD services to customers. To-date 2607 banks representing about 70 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.
- 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.
- A SEPA Cards Framework has been agreed and is in the process of being implemented by all relevant actors enabling card payments at very high levels of security based on new related standards.
- Anticipating changing customer habits, the EPC is developing solutions empowering consumers to initiate SEPA payments online or to use their mobile phone to make payments.
- At the same time, the EPC continues to push for 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.

SEPA history part IV: EU Finance Ministers call for rapid migration to SEPA

In January 2008, a study conducted at the request of the European Commission confirmed that SEPA holds a market potential of up to 123 billion euro in benefits over 6 years with a significant upside for bank customers provided that migration to SEPA is completed swiftly [6]. At the same time, the Economic and Financial Affairs Council (ECOFIN) composed of the Economics and Finance Ministers of the EU Member States called for “rapid and smooth SEPA migration so that dual payment processing costs are kept to the minimum” [7].

SEPA history part V: EU governments - where are they now?

Given a decade of political pressure on all stakeholders to make SEPA happen the observation of EU Commissioner Charlie McCreevy on 13 October 2009 that EU governments now are reluctant to commit to a deadline for migration to SEPA comes therefore as a surprise, to put it mildly. The Commissioner also announced that over the next few months “we will, therefore, carefully consider and analyse how best to progress with this file at EU level and to build political support.” With all due respect for the Commission’s good intentions – from the perspective of banks and their customers who have laboured hard to deliver SEPA payment instruments as requested by the EU governments it appears rather idiosyncratic that these same governments now act as if SEPA has come upon them out of the blue and they would need to start “carefully considering” the merits of an integrated euro payments market.

SEPA history part VI: do as you preach

It is assumed that European politicians remain committed to the ambitious goals of the Lisbon Agenda enabling citizens and businesses to fully reap the benefits of the internal market. It is further assumed that the political initiators of the SEPA process have been aware from the outset that SEPA comes at a – not exactly popular – price also for businesses and public administrations due to the fact that legacy payment applications and other internal systems must be upgraded to conform with the new SEPA standards. The required initial investments into SEPA therefore hardly serve as an excuse now to refrain from completing the project. Rather, it is mission-critical that the public authorities – in particular the members of the ECOFIN and of the Governing Council of the ECB – explain to the customers of banks in their national constituencies the rationale for SEPA and make it clear that allocating the necessary resources is fully justified.

A deadline for migration to SEPA would create awareness, ensure planning security for all market participants and confirm the commitment to making SEPA a reality. Mandating an EU-wide end date requires EU Regulation, e.g. the support of EU governments.

SEPA is the brainchild of European policy-makers including EU governments. This is not the time for excuses. It is the time to bring this baby home.

Gerard Hartsink is the Chair of the EPC.

1. To ensure the highest possible level of reach, efficiency and security of a payment scheme, related rules and standards are traditionally agreed by the banks in close consultation with representatives of customers and service providers. Whereas the rules and standards which make up a payment scheme are defined by banks in a collaborative space, the particular payment product offered to the customer is developed by individual banks or groups of banks operating in a competitive environment.
2. The Lisbon Strategy, also known as the Lisbon Agenda or Lisbon Process, is an action and development plan for the European Union. Its aim is to make the EU "the most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth (…)". It was set out by the European Council in Lisbon in March 2000.
3. Making payments in the internal market. COM (90) 447 final 26 September 1990
4. Single Payment Area
5. http://www.ecb.int/press/pr/date/2009/html/pr090327.en.html
6. European Commission. SEPA: potential benefits at stake. Researching the impact of SEPA on the payments market and its stakeholders (2007).
7. Press Release of the Council of the European Union. Council Conclusions on SEPA. 2844th Council meeting, Brussels, 22 January 2008 (see below).

Related Articles:

Towards a SEPA migration end date? Commission services publish feedback on public consultation on possible end date(s) for SEPA migration

On Bananas and the Integration of Euro Payments. The SEPA commitment of governments (EPC Newsletter, Issue 2, April 2009)

SEPA only - the EPC Vision (EPC Newsletter, Issue 2, April 2009)

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