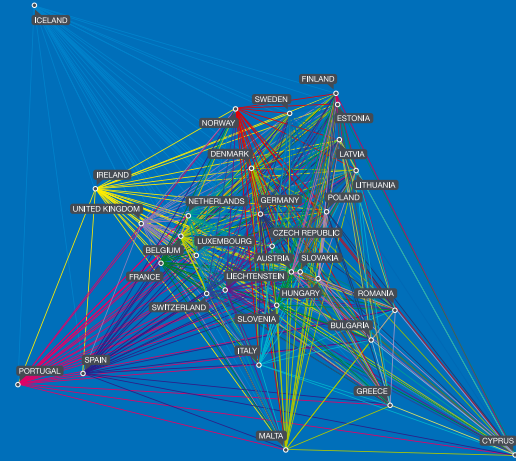


# Ready, willing and able: Creating Sepa-readiness on the customer side

Von Gerard Hartsink



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**Ein Jahr nach dem Start der Sepa-Überweisung haben 80 Prozent der europäischen Unternehmen noch keine Sepa-Strategie. Wenn der einheitliche europäische Zahlungsverkehr ein Erfolg werden soll, so Gerard Hartsink, müssen deshalb die Entscheider auf der Nutzerseite überzeugt werden. Eine besondere Rolle spielt dabei die öffentliche Hand: Gerade weil Sepa in erster Linie politisch gewollt ist, müsse sie die Rahmenbedingungen schaffen und beim eigenen Zahlungsverkehr mit gutem Beispiel vorangehen. Anderenfalls lasse sich die kritische Masse nicht erreichen. Seitens der Europäischen Zentralbank fordert Hartsink eine Kommunikationskampagne, die der zur Euro-Einführung entspricht.** Red.

One year after the successful launch of the Sepa Credit Transfer Scheme it has become clear that additional efforts will be required to convince payment services users of the benefits Sepa holds for them – and to boost implementation on the customer side.

The realisation of the Single Euro Payments Area (Sepa) as envisioned by policy-makers including EU governments, the European Commission and the European Central Bank is crucial to the completion

of the internal market and the monetary union. The European banking industry co-operating in the European Payments Council (EPC)<sup>1)</sup> fully supports the Sepa vision and has successfully made available the necessary Sepa payment schemes and frameworks. The banking industry has realized the following milestones, among others:

- In January 2008, more than 4 300 banks in 31 countries representing roughly 95 percent of payment volume in Europe took a historical first step to starting Sepa by launching the Sepa Credit Transfer Scheme (SCT) for euro payments.
- Also in January 2008, all banks started to issue cards that are compliant with the Sepa Cards Framework (Chip and PIN).

The EPC developed the Sepa Core Direct Debit Scheme and the Sepa Business to Business Direct Debit Scheme, which create, for the first time, a payment instrument that can be used for both national and cross-border collections throughout the Sepa area. With the launch of the Sepa Credit Transfer, European banks are the

first in the world to deploy a new global format – the ISO 20022 XML message standards – for mass euro payment transactions. This innovation is likely to have an impact far beyond Europe, as corporates, banks and central banks in Asia and in the Americas have already started to realise the global implications of 31 countries moving jointly towards this international standard.

## Banks successfully implemented Sepa services

4 300 banks have demonstrated that they are able to deliver Sepa Credit Transfer services as well as SCF-compliant cards services from January 2008 as expected by the public sector. Currently, many banks are preparing their organisations to launch Sepa Direct Debit services from November 2009 onwards.

Sepa is the largest payments initiative ever undertaken within Europe and possibly the world. A programme of this size and scale cannot be implemented only by banks and public authorities. Stakeholders, including corporates, merchants, SMEs and public administrations have the most important role to play, for Sepa will only succeed with their co-operation and commitment. One year after the successful launch of the first Sepa payment scheme, however, there remains room for improvement as regards Sepa readiness on the customer side.

### Zum Autor

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Going forward it will therefore be necessary to bring the prophet to the mountain: Communication efforts will have to be increased to raise Sepa awareness in the market and to get stakeholders actively involved in Sepa implementation. For consumers, the realisation of Sepa should be a smooth step-by-step migration from the current euro payment services to Sepa services.

### **Familiarity with Sepa does not automatically translate into action**

Sepa will boost competition in the payments services sector to the benefit of customers such as consumers, enterprises and public administrations.

According to a study conducted in 2007 at the request of the European Commission, the replacement of existing national payment systems by Sepa holds a market potential of up to 123 billion euro in benefits, cumulative over six years and benefiting the users of payments services.

Despite this potential, however, the authors of the "Sepa Survey 2008"<sup>2)</sup> point out that 79 per cent of corporates and public sector organisations do not have a Sepa team in place and 80 per cent do not have a Sepa strategy. Even though familiarity with Sepa is high (84 per cent of respondents are familiar with the Sepa initiative), or so the study concludes, true market awareness of the impact, implications and potential benefits of Sepa is low and, consequently, market readiness for Sepa is also low: Only 15 per cent of the participants already started to implement Sepa solutions.

### **Sepa is not a prime topic of interest among corporate leaders**

In addition, the authors of the Sepa Survey found that Sepa is not a prime topic of interest among corporate leaders, which seems to be caused by the lack of a sense of urgency due to the following perceptions:

■ The current situation for payments is better than what Sepa promises or is considered good enough.

■ The current Sepa services do not yet cover all payment instruments.

■ Payments as an organisational process within a corporate is always considered critical but hardly ever considered core business. In other words, without a clear incentive, other projects will always have priority.

■ There are currently no direct consequences for enterprises and public administrations that do not act on Sepa (failure to prepare does not involve breach of regulation).

If Sepa is to succeed, the decision-makers on the user side will have to be persuaded to possibly change their approach to payments: re-engineering payment processes based on the same standards and innovative end-to-end solutions will generate better services and reduce costs. Sepa schemes and standards are an integral part of such solutions; the investment in Sepa implementation should be viewed as a strategic opportunity.

### **Sepa and beyond: the role of the public sector**

Sepa started as an EU-wide policymaker-driven integration initiative and is being implemented in a market-driven way by banks making Sepa payment services available. It can therefore be expected that the public sector will take the lead in Sepa implementation. Sepa supports the objective defined by EU governments of removing administrative burdens and modernising procedures, including the promotion of dematerialised means of payment.

The innovation of payment processes, for example migrating government payments away from paper-based and cash processes, is seen as a vital component of

creating modern infrastructures designed to reduce costs, to establish efficient operational structures and to further improve the service level of government agencies interacting with citizens and enterprises.

The political drivers of the Sepa project, however, envisage Sepa not just as a means to modernise publicly run payment systems. In addition, the European Commission and the European Central Bank expect Sepa to serve as a stepping stone towards promoting electronic services provided by the public sector – a main objective of the Commission's initiative "i2010"<sup>3)</sup>.

### **Increasing the potential of public procurement**

Sepa will play an important role in public procurement, for example the purchase of goods, services and public works by governments and public administrations. Public procurement in the EU is a key sector in the European economy totalling an estimated volume of 1.5 trillion euro or 16 per cent of EU GDP, according to the most recent data available<sup>4)</sup>. Opening up procurement markets could significantly boost competitiveness and reduce government spending.

Public procurement in Europe is subject to EU rules, which are intended to remove existing barriers and open up new, non-discriminatory and competitive markets. This will increase Sepa payments of the public sector purchasing throughout Europe. The EU public purchasing rules apply to the 27 member states and to the European Economic Area (EEA – Iceland, Norway and Liechtenstein) as well as to many countries associated with the union.

In April 2004, as part of the legislative package of procurement directives, the European Commission adopted a coherent framework to conduct procurement electronically across Europe's internal market in an open, transparent and non-discrimi-

natory way, to establish rules for tendering electronically and agree conditions for modern purchasing techniques based on electronic means of communication.

The EPC has recommended that the Sepa standards should be a requirement in any public procurement process for delivering payment services to the public administrations in the euro area.

### Creating critical mass

Sepa will become a reality when a critical mass of transactions has migrated from national legacy systems to the Sepa instruments. This goal can only be achieved if major players in the payments environment such as public administrations become dedicated Sepa customers. The public sector is a prime economic actor and is responsible for as much as 50 per cent of the GDP in the euro area and accounts for up to 20 per cent or more of payments made in society. To reach a critical mass of Sepa payments, the engagement of the public sector is indispensable.

Moving this volume of payments made by public administrations to Sepa would not only significantly contribute to creating critical mass, but would in addition trigger the adoption of Sepa instruments by others, such as corporates and consumers. Given the wider benefits for society, public administrations could and should therefore play a major role in kick-starting migration, by setting an example for all payments services users.

### Political initiators: facilitate migration for customers

The Sepa vision will not be realised via the existence of high-quality Sepa schemes and standards as developed by EPC alone – just as the EU monetary union did not materialise simply because of the existence of euro notes and coins.

The vast majority of customers never asked for Sepa payment instruments with a view to replacing national ones. Sepa was not started as a market-driven process. Sepa is an EU-wide policy-maker-driven integration initiative designed to generate

macro-economic benefits and technological innovation. Macro-economic benefits, however, may not be a key determining factor for individual enterprises and public administrations when it comes to investment decisions. Even taking into consid-

## Measures to support the change-over for users

**The following measures, among others, would support the change-over for users of payments services to the new Sepa-products:**

### European Commission:

- Secure the continued commitment of EU governments to the realisation of Sepa.
- Create the appropriate regulatory and legal environment for the Sepa instruments to be implemented.
- Provide the necessary communication support on a scale comparable to the introduction of the euro.

### National governments and central banks:

- demonstrate leadership in the national Sepa Committees together with all other stakeholders as was done for the euro introduction;
- ensure consistent transposition of the Payment Services Directive (PSD) as of 1 November 2009;
- collectively agree end-dates for migration of the public sector to Sepa payment instruments;
- encourage and support Sepa implementation by public administrations at national, regional and local level. The buy-in of public administrations is of vital importance as the

public sector generates more than 20 per cent of payment traffic in the EU;

- allocate the resources for Sepa implementation and migration in annual budgets now;
- require the use of Sepa standards in public procurements for payment services allowing banks to deliver Sepa payments services to any public administration in the Sepa area;
- design and implement incentives which will facilitate the change-over from legacy payment instruments to Sepa for the business community – such as granting tax breaks for early movers, for example
- Facilitate, if necessary, the continued use of existing direct debit mandates under the Sepa Direct Debit Scheme

### European Central Bank:

- for the change over to the euro a substantial communication budget was made available; a comparable communication effort should be afforded for Sepa implementation by the European Central Bank acting as a principle catalyst of the Sepa process;
- differing balance-of-payments reporting requirements as established by various national central banks pose legal barriers to the concept of one domestic euro payments market and must be removed – immediately.

ration the substantial benefits of Sepa payment solutions, it has to be recognized that existing payment solutions are generally viewed to work well. In other words, companies and government agencies may have other priorities than upgrading their payment processes.

Sepa started as an EU-wide policy-maker-driven integration initiative – and not as a market-driven process. It is therefore essential that the political drivers of the Sepa project create the incentives needed to facilitate the migration for customers. At this point, the success of Sepa depends – above all – on the continued commitment and practical support of the political drivers of this project.

### Customers: a call to action

At the same time, customers themselves will have to become active. In a very first step, it is recommended that individual businesses and public administrations implement a dedicated Sepa team responsible for the following activities:

**Assess and respond to the impact:** 65 per cent of participants in the Sepa Survey 2008 mentioned above acknowledge that Sepa will have a major impact on their daily payment processes. However, 42 per cent of respondents are unable to quantify the investment necessary to implement Sepa solutions, for example to adapt existing processes and systems. Companies and government agencies should conduct an impact assessment to ascertain how Sepa will effect the business, administrative, technology and operational aspects of the payments processing within the organisation<sup>5</sup>.

**Assess and take the opportunity:** According to the same survey, 60 per cent of respondents acknowledge that Sepa might offer major business opportunities. However, 48 per cent of respondents are unable to quantify the expected financial benefits of Sepa, and consequently they are unable to (or do not see the need to) build a Sepa business case. A further impact assessment should be designed to quantify the efficiency gains based on Sepa implementation.

**Build and implement a Sepa plan:** Companies and government agencies should design a Sepa implementation plan framework which can be updated as details of the Sepa requirements, schemes and standards are released by the EPC.

**Support your national Sepa Committee:** Users are invited to cooperate closely with national Sepa implementation organisations and to contribute input into the national Sepa implementation plan.

**Keep up to date:** Sepa will generate many documents, new rulebooks and frameworks, as well as detailed standards and specifications. These documents will have to be absorbed and understood by the many thousands of individuals who work within the payments sector.

The EPC also encourages users to actively take part in the evolution of Sepa schemes and standards. All stakeholders are encouraged to liaise with Sepa Stakeholder Forums established by the banking communities on national level. Any European organisation representing the interests of specific user communities are invited to join the EPC Customers Stakeholder Forum or the EPC Stakeholders Forum for Cards. Last but not least, customers have the opportunity to take part in any public consultation carried out by EPC and to submit suggestions regarding the evolution of the Sepa payment schemes.

#### Fußnoten:

1) The EPC is the banking industry's decision making and coordination body in relation to payments. The purpose of EPC is to support and promote a single harmonised, open and interoperable European domestic payments market achieved through industry self-regulation.

2) Sepa Survey 2008. A Study on the Awareness of and Readiness for Sepa amongst Corporates and Public Organisations in the Euro Area. Deloitte and Alos Consulting (October 2008).

3) The European Commission: Preparing Europe's digital future – i2010 Mid-Term Review. Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions (April 2008)

4) European Commission: A report on the functioning of public procurement markets in the EU: benefits from the application of EU directives and challenges for the future (February 2004).

5) For more information on the impact of Sepa implementation on internal processes please refer to the EPC publications "Sepa for Business" and "Sepa for the Public Sector" available at [www.europeanpaymentscouncil.eu](http://www.europeanpaymentscouncil.eu)