

SEPA in great need of a firm end-date

The launch of SEPA direct debits on 2 November marked the most momentous development yet in the EU's grand payments system initiative. However, unless SEPA is given a push ahead in the form of a firm end-date, the project faces the risk of becoming a white elephant, reports **Jeremy Woolfe** from Brussels

In a development viewed by many observers as make-or-break for the European Union's ambitious Single Euro Payments Area (SEPA), the European Payments Council (EPC) has just put into force the SEPA direct debit (SDD) scheme.

The move by the EPC, which has been coordinating payments matters for the European banking industry since 2002, facilitates payments such as utilities bills, across 32 European countries.

The SDD scheme, which came into effect on 2 November, is claimed to offer significant efficiency gains for businesses. Gerard Hartsink, chairman of the EPC, has stressed SDD will provide "the automation of payment processing" and would lead to "decreased IT costs, streamlined back-office functions and simplified reconciliation".

Addressing delegates to a meeting marking the launch of SDD, Hartsink recommended companies take advantage of SEPA by becoming "active". They should start to "shop" for SEPA products from banks, he said.

On a historical note, he added it was the European Union governments themselves in 2000 that provided the initiative, with a report stating: "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."

In January 2008, a study by the European Commission confirmed SEPA could potentially reduce costs for participants by €123 billion (\$185 billion) over six years "provided migration [from the 25-plus national payment systems] to SEPA is completed swiftly". The €123 billion includes processing costs savings and other rationalisation. Investments necessary are estimated at €10 billion from banks, and €17 billion from customers.

For various reasons, migration to SEPA services so far can only be described as sluggish. At the last call (August 2009), the estimated take-up of SEPA direct credit transfers introduced in January 2008 was a measly 4.5 per cent of credit transfers processed in the EU. However, there may be a boost in November 2010, when banks will be obliged to be "reachable" for euro direct debits.

Wishing for further impetus, Hartsink is calling for pressure for compliance to be mandated, which could be via a new regulation. New rules, suggests Hartsink, are needed to enforce uptake of SEPA by, perhaps, the setting up of an implementation deadline.

EU internal market commissioner Charlie McCreevy looked on the launch of SDD payments in a rosy light. He saw it as "a watershed in the development and progression of the SEPA project". He would be aware that direct debits dominate in the eurozone. In 2007, the European Central Bank reported there were 15 billion direct debit transactions, compared with 16 trillion credit transfers and 16.6 billion card payments.

'New dynamism' needed

McCreevy also spoke about actions by the European Commission to support SEPA. This includes a communication setting out a roadmap for the period to 2012 aimed at injecting a "new dynamism", and increased pressure to achieve transposition of the Payments Services Directive (PSD), the legislation behind SEPA, across the EU. McCreevy would be aware a handful of member states missed the November 2009 SDD deadline.

The PSD lays down market rules for payment service providers and the business conduct rules. Relevant legislation also includes a regulation that today lays down the rules on cross-border payments. It specifies cross-border payments should be the same as for corresponding domestic euro payments.

Herman Segers, secretary general of the European Payments Council said the SDD stimulates competition in the payments market. However, he stressed a political push is needed to achieve widespread pick-up by businesses and consumers. Segers confirmed support for a for a migration deadline.

With the wrangling about achieving a straightforward payments system to suit the EU common market, it would be astonishing if European traders were happy. Voluble discontent over the new SDD is expressed by leading European business and consumer organisations working together in a lobby group, the Payment Systems End User Committee (EUC).

The group comprises EuroCommerce (for retail, wholesale and international trade interests); the European Association of Craft, Small and Medium-sized Enterprises (UEAPME); the European Association of Corporate Treasurers; Comité Européen des Assurances; (European insurers); BEUC (consumers' organisation), EMOTA (represents distance selling in Europe; and FAEP (the voice of Europe's periodical press).

In short, the group welcomes the latest extension to the single payments area. However, the EUC, which is also supported by 18 national treasurers associations, comes up with "serious concerns" on SDD.

On pricing, for example, it noted in most EU member states there is no interchange fee on domestic direct debit transactions and end-users are clear no such fee should be introduced for the SDD scheme. Otherwise, there is a danger users in countries where banking is cheap, such as Belgium or the Netherlands, would end up paying "far more for this product".

The EUC also protests about the "security of the product and the validity and migration of existing authorisations". Consumer organisations, particularly "fear the growth of fraud in a Europe-wide direct debit payments market".

Olivier Brissaud, the EUC representative in the SEPA process, stated: "While the introduction of SEPA direct debit will undoubtedly be of benefit to consumers and business, we are concerned take-up will be negligible and many will see little, if any, advantages".

He continued: "The SDD scheme will only be a success if banks take the initiative now to offer new products, which are competitive both for consumers and companies."

Brissaud concluded there exists a serious risk SEPA direct debit will fail to get off the ground. He also expressed fears the whole SEPA project could become a "white elephant".

Brissaud is not alone in expressing this type of negative view. What is needed if SEPA is to fully succeed, agree a wide spectrum of industry experts, is a firm end date on which non-SEPA legacy payments systems must be finally shut down. ■