SEPA:
The move to a Single European Payments Area

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April 2013
European payment landscape today
Set up differently in each country

Domestic payment schemes
Rules & Regulation
Currency
Processing
Clearing
The Single Euro Payments Area (SEPA) is designed to:

- Create a single platform for electronic domestic & cross-border EUR payments within Europe
- Allow companies & individuals to make EUR payments from a single account to anywhere within the SEPA environment under consistent rules and costs
- Replace local, domestic EUR clearing with a single clearing structure from February 2014

SEPA consists of:

- 32 countries – All EU members (27), and: Switzerland, Monaco, Liechtenstein, Iceland, Norway
- SEPA Credit Transfers
- SEPA Direct Debits
- SEPA Cards Framework
Single Euro Payments Area

- **March 2012**: End date regulation agreed
- **February 2013**: Member states finalise migration plans and transitional provisions / niche products
- **February 2014**: End date for legacy ACH in Eurozone
- **February 2016**: Niche products migrate to SEPA
- **February 2017**: EC review on Regulation

- **2012**: Equality of charges for all payments in scope (EUR 50,000 threshold abolished)
- **2013**: Payment accessibility across SEPA
- **2014**: Use of XML in client to bank space
- **2015**: "IBAN only" sufficient for domestic txn (no BIC)
- **2016**: End date for legacy ACH in Non-Eurozone countries
- **2017**: Use of XML in client to bank space

where we are going to...
Single Euro Payments Area (SEPA)

- Account Identification: IBAN
- Uniform Timing of Payments
- Same Day ACH Payment
- Content of Payment Instructions
- Universal acceptance of ISO XML
- Standardisation of charges & fees
- Choice of 2 Direct Debit schemes
Product: SEPA Instruments

**Payables**

**SEPA Credit Transfers**
- Cross-Border Payment scheme
- Transaction value up to €999,999,999.99
- 32 Country Coverage
- No deductions
- Supports ‘On Behalf Of’
- Same Day clearing cycle
- 140 characters of remittance information supported.

**SEPA Direct Debits (Core)**
- Cross-Border Direct Debit Scheme
- 32 country coverage
- 3 day clearing cycle
- 8 week ‘no questions’ refund period
- 13 month unauthorised collection refund period
- Scheme open to all parties
- 140 characters of remittance information supported.
- Pre-notification of collection from creditor to debtor

**SEPA Direct Debits (B2B)**
- Cross-Border Direct Debit Scheme
- 32 country coverage
- 2 day clearing cycle
- No refund period
- Finality of funds on settlement
- Scheme not open to consumers
- 140 characters of remittance information supported.
- Pre-notification of collection from creditor to debtor

**Receivables**

**SEPA Credit Transfers**
- Cross-Border Payment scheme
- Transaction value up to €999,999,999.99
- 32 Country Coverage
- No deductions
- Supports ‘On Behalf Of’
- Same Day clearing cycle
- 140 characters of remittance information supported.

**SEPA Direct Debits (Core)**
- Cross-Border Direct Debit Scheme
- 32 country coverage
- 3 day clearing cycle
- 8 week ‘no questions’ refund period
- 13 month unauthorised collection refund period
- Scheme open to all parties
- 140 characters of remittance information supported.
- Pre-notification of collection from creditor to debtor

**SEPA Direct Debits (B2B)**
- Cross-Border Direct Debit Scheme
- 32 country coverage
- 2 day clearing cycle
- No refund period
- Finality of funds on settlement
- Scheme not open to consumers
- 140 characters of remittance information supported.
- Pre-notification of collection from creditor to debtor
Migration tasks: Questions to answer

**Account strategy**
- Visibility of euros
- Number of banks
- Number of accounts
- Number of channels
- Variation of channel connectivity

**IBAN collection**
- Have you got IBAN and BIC data
- How will you get IBAN and BIC data
- How will you advise suppliers of IBAN and BIC

**Bank capability**
- Are all of your banks capable of processing SEPA payments and collections (sending & receiving)

**Migration approach**
- Payments & Collections together or separately
- DD mandate management approach

**Formats & channels**
- Format want to use
- Understanding of benefit of XML
- System capacity
- Format conversion need

**Reconciliation**
- Target rate for reconciliation
- SEPA return codes
- Richness of information
The migration challenge for SEPA

SEPA VARIATIONS
- Access to services: consumer accounts, business accounts
- Use of optional vs. mandatory fields
- Country-by-country migration plans
- Usage of Additional Optional Services in certain countries
- Different clearing cycles for same scheme – SDD: first versus recurring
- Difference in interpretation of reason codes for transaction failures per country

DIRECT DEBIT MANDATES
- Creditor responsible for mandates
- SEPA mandates contain more information than legacy mandates – e.g. Unique Mandate Reference
- Legacy mandate data is different in each country
- DD collections need to contain certain elements of mandate information
- Customers must be advised of Creditor’s move to SEPA Direct Debit
- Creditor needs to send pre-notification of each collection to their customer

BUSINESS PROCESSES
- Impact on ERP / billing systems: ensuring additional SEPA data elements can be accommodated
- Impact to reconciliation with the introduction of new SEPA data elements
- Introduction of new reason codes for transaction failures
- Introduction of new Direct Debit Schemes and authorisation and refund procedures
- Impact on DD return rates?
- Differences in clearing cycles for SEPA versus legacy schemes

FORMATS
- SEPA uses new data formats – e.g. IBAN instead of BBAN
- Mapping local file formats to SEPA XML ISO20022 file formats
- Existing direct debit collection file format is different in each country at present
- Size of XML files vs. legacy formats
SEPA complements key treasury trends

- **Centralisation**: Shared service centres / payment factories. Natural balance consolidation. Pathway to a single account, in a single location.

- **Standardisation and interoperability**: Common instruments and technical standards, standardised clearing, settlement and value dating; harmonised legal basis.

- **Rationalisation of relationships**: Potentially no need to maintain local banking relationships. All 32 countries reachable to/from a single location.

- **Systems integration**: ERP vendors have invested in response to SEPA. Single file format. Facilitates automated reconciliation.

**Improved efficiency and scale**
European Banks: key SEPA capabilities

- BIC & IBAN tools
- SEPA Mandate Manager
- Mass/Bulk capability
- Legacy data format conversion
- SEPA Credit Transfer
- SEPA Direct Debit
- Support XML ISO 20022
- Virtual Accounts and Straight Through Reconciliation
- Returns ReAssociation
A Mandate authorises the creditor to:

- collect funds from the account of the debtor (or payer)
- instructs the debtor's bank to pay the agreed collections

In some countries (e.g. Germany) Mandates do not have to be held in paper form;
- Could take the form of an agreement between debtor & creditor

Mandates are sometimes also referred to as Authorisations or Direct Debit Instructions (“DDIs”).
<table>
<thead>
<tr>
<th></th>
<th>Core Scheme</th>
<th>B2B Scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Users</strong></td>
<td>Debtor can be either a business or a consumer</td>
<td>Debtor must be a non-consumer</td>
</tr>
<tr>
<td><strong>Bank Coverage</strong></td>
<td>Mandatory where euro direct debit service offered</td>
<td>Optional</td>
</tr>
<tr>
<td><strong>Refund right for Debtor</strong></td>
<td>Entitled to obtain a refund for an authorised collection during 8 week period after being debited</td>
<td>Not entitled to obtain a refund for an authorised collection</td>
</tr>
<tr>
<td><strong>Refund – Debtor Bank role</strong></td>
<td>Debtor bank may recover the refund paid to the debtor from the creditor bank</td>
<td>Debtor bank is not allowed to recover the refund paid to the creditor bank</td>
</tr>
<tr>
<td><strong>Time line for collection</strong></td>
<td>First or one off collection must be received by the Creditor Bank at the latest 6 inter-bank business days before due date. Subsequent collections must be received by the Creditor Bank at the latest 3 inter-bank business days before due date</td>
<td>Any collection must be received by the Creditor Bank at the latest 2 inter-bank business days before due date</td>
</tr>
<tr>
<td><strong>Return of a collection</strong></td>
<td>Latest date for return of a collection is 5 inter-bank business days after the settlement date of the collection</td>
<td>Latest date for return of a collection is 2 inter-bank business days after the settlement date of the collection</td>
</tr>
<tr>
<td><strong>Validity of existing mandates</strong></td>
<td>Mandates can be migrated from legacy providing refund rights for debtors are not reduced. Existing mandates can still be used in most cases</td>
<td>Mandates can be migrated from legacy providing refund rights for debtors are not reduced. Due to no refund right for debtor, a SEPA B2B scheme mandate will always be needed to collect a SEPA B2B scheme direct debit</td>
</tr>
<tr>
<td><strong>Checking of the Mandate</strong></td>
<td>Debtor bank is not obliged to check the collection; can offer as an additional service</td>
<td>Due to the absence of refund rights, the debtor bank is obliged to obtain confirmation from the debtor that the collection is valid before debiting the debtor's account</td>
</tr>
<tr>
<td><strong>Recording mandate information</strong></td>
<td>Debtor bank can offer this facility as an additional service; not obliged to do so</td>
<td>Debtor bank must store the mandate data confirmed by the debtor</td>
</tr>
<tr>
<td><strong>Mandate Cancellation</strong></td>
<td>Debtor has no rulebook requirement to advise debtor bank of cancellation; may be requested as a best practice</td>
<td>Debtor bank must include in T&amp;Cs the obligation for the debtor to advise the debtor bank of cancellation</td>
</tr>
</tbody>
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SEPA migration timeline

- No end date – low uptake
- Window of opportunity
- Resource peaks
- Ideal migration pattern
- Left over
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Keeping your Euros flowing
The move to SEPA

Project stages
- Impact assessment
- Decide on route forward
- Build yourself?
- Rely on ERP vendor?
- What Bank?
  - Implementation
  - Migration
  - Testing
  - Go live

All within 316 days
THANK YOU