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Adoption of SEPA Payment Instruments Expected to Accelerate in 2010

Most recent developments suggest that adoption of the two principal instruments of the Single Euro Payments Area (SEPA) initiative should begin to accelerate next year.

SEPA aims to harmonize, standardize and ease the movement of euro payments throughout the European Economic Area. It is designed to enable euro payments through two principal tools — the SEPA Credit Transfer (SCT) and the SEPA Direct Debit (SDD).

The SCT launched first, in January 2008, but so far has captured only 2% to 3% of the total potential credit transfer volume in the target market. Most SCTs have been cross-border transactions within the European Union (EU), while the number of SCTs in local transactions has lagged. Reasons for slow SCT adoption include:

- Migrating to the SCT requires extensive corporate preparation of systems, processes and formats.

- Adoption also calls for corporates to collect International Bank Account Numbers (IBANs) and Bank Identifier Codes (BICs) from their payees. While companies previously needed IBANs and BICs for cross-border transactions, they did not for in-country transactions, making this a major task. Additionally, in many countries, tools for collecting IBANs and BICs did not become available until late last year.

- Some corporations decided to delay SCT adoption until the SDD launch, so they could migrate to both SEPA payment instruments at the same time.

EPC Announcement
The SEPA initiative received a much-needed shot in the arm when the European Payments Council in April reaffirmed plans to enable banks to start delivering euro direct debit services in November 2009.

The SDD will, for the first time, enable companies to initiate and collect direct debits in euro in the 31 SEPA countries using harmonized, standardized rules. Companies will be able to open a single account in one country and collect from customers in all of the countries using that one account.

The SEPA Direct Debit has a "core scheme" as well as a "B2B scheme" with a separate rulebook designed for specific business-to-business relationships.

By eliminating uncertainty over the timetable for the SDD launch, it is expected that the EPC's April announcement will result in more companies beginning to prepare in earnest to adopt both SEPA payment instruments.

Regulatory Boost
Another development in April that gave the SEPA initiative a boost is the European Commission's updating of EU Regulation 2560, which previously only covered credit transfers. The regulation now mandates that all EU banks be capable of accepting SDDs on behalf of customers having their accounts debited, and remitting funds to the collecting bank.

The regulation mandates EU bank "reachability" by year-end 2010 and is significant because, unlike the EPC guidance, it creates a legal obligation for the banks.

Payment Services Directive
All EU countries must adopt the Payment Services Directive (PSD), the new legal framework for payment services in Europe, before they can take advantage of the SDD.

The EPC is urging national governments to do that by November 2009. So far, according to the latest status updates, almost all countries in the EU will comply. However, in late April, the French National SEPA Committee reported that French banks were pushing back SDD implementation a year, until November 2010, due to delays in the transposition of the PSD to national law, among other reasons.

If corporations do not immediately migrate to the SDD, they still need to be aware that the PSD rules also apply to existing national direct debit schemes.

No firm end date has been established for discontinuing legacy credit transfer and debit schemes, but that could come any time after 2012.

Benefits of SEPA adoption
SEPA presents many opportunities to corporations operating in multiple EU countries. By using the new SEPA instruments, such organizations may be able to:

- Reduce their number of pan-European bank accounts
- Lower bank and internal costs
- Improve back-office efficiency
- Increase fee transparency as a result of streamlined processes and bank account structures

With migration to the SEPA instruments likely to pick up steam in 2010, companies that have yet to act need to begin analyzing the strategic benefits of adopting the SCT and SDD. They also need to begin taking the practical steps necessary to implement SEPA so they will have enough time to complete their projects to meet the eventual end date for legacy schemes.

Deutsche Bank has been a leader in the SEPA initiative. We were the first bank to publish a dedicated SEPA strategy and will offer both the core and B2B schemes when the SDD launch occurs. To learn more about the new SEPA instruments and how they can help your company achieve goals around rationalization of bank accounts, standardization of formats and centralization of account management, e-mail Alex Young, Director, European Treasury Solutions, at Deutsche Bank, or call him at (415) 617-3523.