

The Status of SEPA in 2009

2008 was a challenging year for the single euro payments area (SEPA). It brought the first successful, visible deliverables of SEPA to the market with the introduction of SEPA Credit Transfers and the SEPA card framework. However, much remains to be done to achieve the full objectives, and progress needs to continue.

The need for SEPA remains strong, even if Europe is facing a very different 2009 and beyond than that which was expected when the SEPA roadmap was confirmed and the project was started more than eight years ago. SEPA is needed to ensure the new modern payment platform that can enable Europe to move beyond basic services, increase payment efficiency, embrace innovation and integrate further services in the trade process.

Crises are tough, but they can also create and reinforce the momentum to accelerate change in processes - history has shown that previously.

Europe will progress its harmonisation agenda this year. The introduction of the new Payment Services Directive (PSD) will be important for payment end-users, and is expected to come into force in the entire EEA by 1 November 2009. This will create a new legal regulatory framework for payments in all of the EEA currencies, not only euros.

According to the SEPA Roadmap, the SEPA Direct Debit (SDD) is also due to be launched in November 2009. Accompanying the credit transfer, with a creditor-initiated payment instrument, this will strengthen the SEPA value proposition in the market.

Furthermore, the second year of SEPA should bring additional clarity for the many different end-users as to what are the concrete services they can expect from payment service providers in the full customer-to-bank and customer-to-customer context. As with the introduction of the euro currency, communication with end-users now needs the highest focus to motivate migration.

The country migration plans need to be revised, and the call for an 'end-date' is requested by most stakeholders. Even without a date in place, positive signals are coming from front-runners who are now starting to announce concrete migration plans on country level. Among those countries are Belgium and Finland.

Importance of the Euro and SEPA

The entrance to 2009 marks the 10 year anniversary of the introduction of the euro as European currency in 11 EU member states. During this decade the number of eurozone countries in the monetary union has expanded to 16 of the total 27 EU Member States with Slovakia being the most recent country adopting the euro at the start of this year. Now almost 330 million of the EU's nearly 500 million citizens have the euro as their home currency, as well as the majority of the more than 22 million enterprises.

Within the same period, the European non-cash payment market has also continued to grow on a global scale. With around 70 billion transactions annually, Europe accounts for almost a third of the global account-based payment volumes, out of which the eurozone countries account for nearly 73% of this total. Consequently, all the various payment transactions we make in Europe add up to a large portion globally.

As Europe moves on with the SEPA project, several countries beyond Europe are currently showing increasing interest for and awareness of this initiative ongoing in Europe. Could there be a 'best of breed' to be taken elsewhere with lessons learned from Europe's experience?

The persistent expanding euro zone area and the increased importance of the euro currency globally are important reasons to keep up the strong efforts with the SEPA initiative.

By taking payments to the next level by eliminating the current payment fragmentation and moving towards harmonised payment instruments and modern processing standards throughout Europe, we are not merely assisting ourselves within the European market, but certainly also contributing a stronger influencing power for Europe in the global arena.

SEPA in the New Landscape

The EU governments set ambitious goals for Europe in the Lisbon Agenda with the proclamation of creating the most prosperous and successful position for the EU in the global economy. In order to expand the European single market, the national-oriented payment systems needed to convert, and distinctive payment habits and cultures needed to merge towards more harmonised patterns. This is a demanding objective for 27 mature economies, many of them with proud histories of how patterns and cultures have evolved over centuries and decades. This is not an easy task to overcome and it needs the right balance of change process management in order to ensure that important value in existing services is not diminished in the new harmonised European services. Change must move towards something better in order to justify the burdens and possible pain points of the process.

Moving into 2009, there is another change happening that wasn't expected at the time the vision of SEPA was outlined. Even within the past few months, the banking industry has further consolidated and changed, and we are now starting to see the true impact of the financial turmoil on the real economy throughout Europe, with no one remaining unaffected.

This serious situation has created an urgent need for new actions from the EU's highest level, both consolidated and also from the individual Member State level.

This unpredictable and very challenging new situation that everyone is coping with has not fundamentally changed the fact that payment services need to continue modernisation in order to become more flexible, agile and adapt in order to comply with its important purpose in society. The objectives of SEPA remain intact.

Payments: Complimentary but Crucial

It's easy to forget, but yet crucial to remember, payments' role in a modern society is as a complementary and not independent product - unlike most other services or products.

The purpose of payments is to fulfil and complete any financial obligation between two counterparties. Hence, the volume of financial dealing determines the demand for payments. Seen apart from that, it is not an isolated function. No one is interested in making a payment just for the fun of paying.

In today's society, this means a transfer of electronic funds (monetary value) between two accounts either initiated by the buyer (payer) or the receiver (payee), or providing physical cash (coins and notes) for settling an obligation. Even with substantial volume growth in electronic fund transfers, the vast majority of transactions in Europe are physical cash transactions. Cash-in-circulation continues to grow in most European countries.

Without well-functioning payment systems, our daily lives will soon be impacted. Everyone involved in providing payment services to modern societies knows how fast global incidents start to impact the functioning of society, even in local communities. In the worst cases, these can violate confidence and create additional risk in payment operations, as well as harming end-users.

During the autumn of 2008, many counterparties were suddenly unable to fulfil their payment obligations. This gave the entire financial industry proof of the high risks associated with payment processing and payment operations in the full end-to-end perspective, and it showed the crucial importance of completely secure and resilient clearing and settlement systems in all communities and markets.

There are reasons to expect that both national and EU regulators overseeing the stability of the payment systems will enforce additional regulations towards banks and payment services providers in order to protect the end-users of payments. This can also be an accelerator to move towards modern and more scalable solutions and push forward the transition process.

Even with efficiency, as well as end-user value, provided today in many European countries, much is still to be done in order to respond better to the demands and expectations of the millions of payment users now and in the future. Many other industries have moved the majority of their services towards real-time or close to real-time delivery, and they show a time to market of product improvements of less than one year. Within payment services, this change process is moving at a slower pace, not to the benefit of service users.

The early 1990s was the last time that several European countries experienced serious financial crisis. The Nordic region banks were left with no option but to move away from paper-based and manual solutions towards electronic and more value-creating services for their customers. And even if the scope previously was primarily to solve the problems on a country and community level - basing solutions on country proprietary regulations, standards and networks - one outcome of the financial crises was the new era and evolution of e-payment services for the benefit of all parties.

The current crisis can also create a strong momentum to lift us to the next level of modernisation and dematerialisation, but this time not merely with a single country dimension. Now it's time to take the European step.

In 2009, no country is isolated. Trade and business deals flow across all physical state borders, emphasising the need for widely accessible and secure ways of effecting payments.

We, as citizens, also live our lives enjoying both virtual opportunities enabled by the Internet and new technologies. Also our physical mobility is rapidly increasing, driven by our own personal plans, ambitions, needs and aspirations. No one accepts that limitations in payment initiation alternatives should create any restrictions for the way we want to live our lives.

A Successful Start to the Journey

For the market and users of payment services, the visible start of SEPA happened in January last year with the delivery and launch of the SEPA Card Framework and SEPA Credit Transfers (SCT).

Within the first few months of market introduction, more than 4800 banks in Europe declared themselves ready to handle SCTs. At the same time, 16 of the most important clearing houses, many of them operating in multi-country landscapes throughout Europe, also declared SEPA readiness. With this commitment, more than 90% of the European market is covered, and the crucial milestone of ensuring rapid pan-European reachability for the new service is successfully accomplished from the banks' side.

The successful launch of SEPA proved the good quality of the preparatory work done in the initial stages of the project by all the involved parties. However, the journey ahead towards European payment harmonisation needs to continue without delay.

European Central Bank's Call on SEPA

Towards the end of November 2008, the European Central Bank issued the sixth progress report on SEPA. These reports address all stakeholders for SEPA, both the suppliers' side represented by banks and payment institutions, and also the buyers' side represented by public administrators, corporates, merchants and consumers.

The key message regarding SCTs related to the need for more communication to clarify product offerings from banks to customers in order to stimulate the uptake of SCTs by all customers. This would help ensure the important role that public administrators, in particular, could become early adopters. The public sector accounts for approximately 20% of the total payment volumes.

The most important obstacle to overcoming SEPA Direct Debit (SDD) is to find a solution for the migration of existing mandates used in the domestic solutions today to the new SEPA instruments. In addition, the compensating model between creditor and debtor bank needs to be finally defined (the multilateral balance fee).

For the SCT and SDD, it should be the goal to set a realistic but ambitious end-date for the migration in order to reap the benefits of SEPA early across the entire SEPA zone. Within the card area, the main focus concerns ensuring adequate influence over the SEPA cards standard, which should preferably be non-proprietary standards, advanced in the SEPA cards standardisation programme.

Also, in addition to the international schemes operating in Europe today, evaluating the possibilities of supporting Europe with a European card scheme is in the overall interest for the European Central Bank (ECB).

The importance of ensuring end-to-end straight-through processing (STP) without manual intervention and to move beyond core and basic services embracing innovative products and services such as e-invoicing, Internet payments and mobile payments is expected to be included in the next phase of deliverables beyond 2010.

User Perspective and Efficiency Through Networks

The design and build-up of SEPA's infrastructure has started from the basic, core services. The underlying goals are better efficiency and user convenience through European harmonisation. However, as the keys of SEPA are electronic payments and automation through standardisation, the end-to-end perspective adds to the challenge: if a chain of fully automated processes is broken at one point by manual or non-interoperable operation, the value of the rest of the chain is diminished. This goes for both the service elements mentioned in the end of the section on ECB progress report above, but also for the other relevant regulatory details, such as balance of payments reporting, non-resident discrimination, non-harmonised tax administration, etc. SEPA 'basic' is a necessary and good start, but more is needed to reap all the benefits of the vision.

Conclusion

Taking Europe through further harmonisation with SEPA is our common journey that has just begun and will remain an important task for all involved parties in 2009 and many years to come.

It will require a lot from us in many ways, not only collectively but also on a personal and individual level. Representing the Northern corner of Europe, we Nordic people have a Finnish word to express this: 'sisu'. This four letter word has three combined meanings: will, determination and perseverance. We have identified that working with SEPA requires all three. We are more than happy to share our tiny word with the rest of Europe if you can also make use of it.

For the thousands of people heavily involved in creating the new payments landscape in Europe, the journey can sometimes be rough. Faced with this, perhaps some inspiration from our predecessors' hard work with innovation can add further motivation for all of us. Back in the 18th Century, the diesel engine was invented by Christian Karl Diesel, but the one that took this great invention through major improvements some years later was Charles F. Kettering, a US electrical engineer. Kettering stated: "A problem well stated is a problem half solved." A bright and innovative career also made him conclude: "Every great improvement has come after repeated failure. Virtually nothing comes out right the first time. Failures, repeated failures, are the posts on the road to achievement."

This could be something to bear in mind in order to keep a strong focus, even during periods where implementation may seem fraught with difficulties. SEPA is our common effort for the future. It is an important journey that demands courage, motivation and execution from all parties.

2009 will be another year with new deliverables on the path towards a more harmonised Europe payments environment. To put our SEPA journey into perspective, bear in mind these words from Winston Churchill: "Now is not the end, it's not even the beginning of the end, but it's perhaps the end of the beginning."

In our efforts towards better services for all payment users let us agree that, right now with SEPA, we are just at the end of the beginning, but we are indeed progressing and moving forward. Let's keep up the good work.

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