

Comments on “SEPA Next Steps”

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In addition to the comments at the PSMG meeting, we want to contribute the following topics to the SEPA incentives paper and its questions. We have understood that the fact finding on this issues will be about 6 months. Therefore, we have waited to the analysis the EU DG Competition sectoral inquiry to represent the following view points with a more “long term approach”:

Highlights:

- **We support the goal to create a “Single Euro Payments Area”. In the long run, it will lead to more efficient payment markets, which will ultimately benefit the European merchants and consumers.**
- **In general, we support the “market based approach” based on the competition of different payment schemes and a thorough discussion before implementing any mandatory regulatory measures.**
- **In the long transition period, the regulatory focus should be on an effective competition at level playing fields as well as the implementation of common, open**
 - a) **technical standards,**
 - b) **administrative procedures and**
 - c) **legal requirements.**
- **Non-banks providers, merchants and consumers should be much more formally and informally involved into the decision making processes.**
- **In the setting of standards, the “referee should not be also a player of the game”. Additionally, the voting powers in the organisations should represent all stakeholders in a balanced way.**
- **From our experience, we expect huge differences in the national implementations of the “New Legal Framework” in duties like reporting, organizational requirements and anti-money-laundering obligations. These differences and different regulatory interpretations of business activities should be avoided or smoothed before implementing SEPA.**

To the questions:

6. POSSIBLE RECOMMENDATIONS FOR DISCUSSION

- (1) Do stakeholders have any comments on the vision in Section 2?*
- (2) Do stakeholders have any comments on the gap analysis in Section 4?*

We share (in general) the findings of the Commission.

6.1. Governance and consultation

- (3) How can governance be improved?*
- (4) Do stakeholders feel they have been involved enough in consultation in the SEPA/EPC process so far?*
- (5) How can non-bank payment service providers contribute to the self-regulatory development of SEPA?*
- (6) Could membership of the EPC (or any of the institutions it envisages, like the Scheme Management Entity) be opened up for all payment service providers? What conditions would have to be met?*
- (7) How can other stakeholders, most importantly end users (consumers, SMEs,*

merchants, corporates, public bodies, but also processors, infrastructure providers) be better involved in the consultation process? (E.g. open public consultation, feedback through nominated representatives) what is the preferred channel for consultation (e.g. through the EPC directly, through an independent channel, through their financial institutions, national associations)? Please elaborate.

(8) What are the best practices for user involvement and consultation available in Member States?

A public consultation of all stakeholders (including payment providers, merchants and consumers) has not happened yet. For us, it was not even possible to receive officially the approved EPC specifications on the planned SEPA Credit Transfer and SEPA Direct Debit Schemes.

Therefore, the EPC-SEPA plans are a valuable option but are in no way a universal proposal that has been agreed on by all stakeholders.

In our opinion, the EPC-SEPA plans should be an option in the future payment market, but the introduction should be left to the market.

6.2. How can we ensure that product themselves to meet the vision?

(9) Will the products based on the current SEPA schemes and framework (version 2.0) be sufficiently attractive

(a) to be offered by payment service providers and

(b) to be taken up by users?

(10) Do stakeholders think the products based on the current SEPA schemes and framework (version 2.0) will be of sufficient quality to encourage users to migrate from existing national products? (Full answers to these questions may have to wait until version 2.0 is available). Responses should specify the scheme details considered deficient and the improvement deemed necessary. E.g. are there features missing in the SEPA schemes that are available in the current domestic schemes and that are particularly important to users?

(11) Should the development of common SEPA customer standards and interfaces also be addressed?

(12) What are the topics where end users' believe improvement would be valuable (Remittance information, time cycles, consumer protection, other?) Do stakeholders think there is a need for the development of a standard for structured remittance information in SEPA payments?

(13) Is there a need to develop common SEPA credit transfer forms, direct debit (mandate) forms, both paper and electronic such as currently exist at the national level?

(14) Are there products at the national level that cannot be based on the SEPA schemes/frameworks? What will happen to existing domestic products that cannot be provided within the scope of the SEPA schemes and framework?

(15) Could there be a role for the regulator to mandate a minimum service level?

According to the information, that we have received informally (SCT, SDD) or formally (SCF) , we would like to comment with our experience mainly on the German market:

- **The SEPA credit transfer is more complex than credit transfer in the German market (especially with the BIC requirement) and it has less information (less free accompanying text fields).**
- **The SEPA direct debit is significantly more complex than e.g. the direct debit in the German market (e.g. mandate requirement, BIC requirements, address requirements) and has less information (less free accompanying text fields). Furthermore, an interchange fee is foreseen, which seems to contradict the "SHARE" principle and which is not present in the German market.**

- **The SEPA Card framework is very loose in its commitments. At the same time, it does not mention any non-EMV, non-PIN based products, which still have a very high marketshare (e.g. ELV in the German market) or are a now piloted in certain markets (e.g. contactless Maestro payments without PIN in U.K.).**

According to the informal views of the EPC, national competing debit card schemes like ELV in Germany, should be phased out with SEPA. This would reduce the level of competition significantly.

Service Levels should not be regulated: According to our operational experience, a functioning competition is the best guarantee for good quality and a reasonable price. Any regulation should be avoided as long as possible, as a good regulation is very difficult to set with widely varying customer demands.

6.3. Adoption and offer by banks and card schemes of SEPA products

(16) Can we rely on self-regulation in the take-up and implementation of SEPA products and standards by 2008?

(17) Do we have to make the SEPA schemes and frameworks mandatory and if so, to whom? To all banks? What would be the cost of this and would the cost be proportionate to the gains?

(18) How can we be sure that SEPA products will be available from all providers by January 2008? Would more detailed monitoring and milestones be helpful?

(19) Should we make adherence to EPC DD and CT rulebooks mandatory for all payment service providers by the same date i.e. 2008?

(20) Should we make compliance with the Cards Framework mandatory for all payment service providers by the same date i.e. 2008?

(21) Should the scope of regulating SEPA compliance be limited to payment service providers that are already domestically offering corresponding national products? (i.e. if a bank currently offers direct debit services domestically to its customers, the bank has to offer the SEPA Direct Debit product by 1 January 2008) Would this regulation solve the reachability problem and ensure a successful launch of SEPA in 2008?

Due to the above mentioned weaknesses of the EPC-SEPA plans, any implementation should be voluntary in 2008.

As a background for a later discussion, it should be noted that there are two sides in payments: “issuing” and “acquiring”, or the “sending part” or the “receiving part” of a payment transaction.

At the beginning, both “sending” and “receiving” part should be optional, as significant IT- and operational tasks will have to be mastered by all parties in an economically feasible way.

After several years, the European Commission and/or ESCB should perform an open and transparent analysis with input from all stakeholders (including non-bank service providers, merchants and consumers) in order to evaluate a mandatory requirement for a “receiving” party.

In our opinion, a mandatory requirement for a “sending party” should be avoided also later, as it would force a company to offer a “compulsory” service. This should be only the ultimate requirement for a player with a market dominant position in a certain market.

6.4. How can public authorities contribute to the standard setting process?

Questions

(22) If it is shown necessary, what is the optimal way to regulate standards for SEPA (legally, recommended)?

(23) What are/were best practices for standard setting in payments at the national

level?

An open and transparent consultation can be the only basis for the development of new “network” standards. The development of national standards (like the current “national EMV” implementation in Germany) should be avoided.

In the setting of standards, the “referee should not be also a player of the game”. Additionally, the voting powers in the organisations should represent all stakeholders in a balanced way.

6.5. How can we ensure effective competition in the processing of payments?

(24) How can effective competition be ensured in all aspects of processing payments?

These questions are preferably answered separately for

(a) credit transfers/direct debits and

(b) for card payments.

(25) Will open standards and the separation between infrastructure and scheme allow for effective competition in processing? If so, should a separation between scheme and infrastructure be made mandatory?

(26) Do we need a mandated list of technical requirements to facilitate interoperability between SEPA infrastructures/processors?

(27) Will open standards and the separation between infrastructure and scheme allow for effective competition in processing of card payments? Is there a need to require card processors and networks to process neutrally all SEPA-standardised card transactions irrespective of brand and national background? Do we need additional rules on top of technical interoperability requirements to facilitate technical and commercial interoperability between processors?

(28) Should the (rules for) POS card-terminal certification/accreditation be harmonised throughout Europe? How should this be done?

We share (in general) the findings of the Commission, DG Competition in its recent sectoral inquiry.

6.6. How to ensure adoption of SEPA products by users?

(29) How can adoption of SEPA products by end users be ensured?

(30) Can stakeholders identify problems that would prevent migration by end users for domestic products to the SEPA schemes based products?

(31) Is there a role for governments to be earlier adopters of SEPA products? What role can governments play in the design and consultation of SEPA products? What have been the experiences at national level with government involvement in promoting new payment services?

(32) What is needed for big non-government users (corporates, SMEs, merchants) to ensure mass take-up? These stakeholders are particularly requested to give their views on what would facilitate their use of SEPA products.

(33) Is consumer (i.e. private individuals) education necessary to facilitate adoption? How can this be organised best? Who should take the lead in these activities? When and how should education/communication on SEPA to end users take place?

We want to answer in a “simplistic way”:

- ***If the new SEPA products are better than existing national products, the “sales efforts” can be left to the market participants.***
- ***If the new SEPA products are not better than existing national products, the products should be improved.***

Notwithstanding, a SEPA information website by the European Commission and/or the ESCB might be helpful.

6.7. How to minimise the cost of migration

(34) How can migration cost be minimised?

(35) How do banks estimate their migration cost? Please explain the basis for the estimate.

(36) How do other stakeholders perceive the adjustment cost of the transition to SEPA?

(37) What ways can be identified to minimise migration cost for users?

(38) Should IBAN and BIC be made mandatory for all users, for all euro-domestic credit transfers and direct debit transactions?

(39) In what areas does uncertainty hinder migration? Would certainty over product availability and timing reduce migration cost?

(40) Which kind of migration services could facilitate the migration process? (E.g. would it help if national banking communities were to publish conversion tables from national data formats to SEPA formats to provide a unique source of reference for the developers of conversion software? Can national banking associations publish these conversion tables? Will this allow software-providers to develop and deliver their conversion products on time and competitively?)

(41) How much time would be needed for an efficient migration process and how much earlier should specifications/requirements on mandatory changes and conversion services be available?

(42) Do software-providers and other stakeholders see other measures that would facilitate the introduction of products that could reduce migration cost?

(43) How can we ensure that migration coincides with the 'natural investment cycles' of stakeholders?

It should be noted that investments into payment instruments have typical life cycles and/or depreciations times between 4 and 10 years.

Therefore, if any new standard is introduced in 2008, old standards should be kept open at least until 2018, if migration costs should be minimised. Otherwise, additional costs will occur due to the "political will" for new standards.

6.8. How can we ensure that SEPA products can be improved over time?

(44) How can we ensure that SEPA schemes and SEPA products will be improved over time?

(45) What kind of governance arrangements should be made?

(46) What other measures or policies are available to ensure that SEPA products are improved over time?

(47) What arrangements currently exist at national level for ensuring that products and schemes can be improved over time to take into account changing user preferences or new technological opportunities?

(48) How can the development of value added services be arranged, which initially may be only provided by a smaller group of banks? How can interoperability be ensured?

In general, we support the "market based approach" and a thorough discussion before implementing any regulatory measures.

6.9. How can we ensure effective competition in SEPA?

6.9.1. Cards

(49) What obstacles hinder effective competition in card payments in SEPA? What can be done to ensure greater competition in card payments in SEPA?

(50) Do we need interchange fees in card payments? Could not both sides to the payment directly charge the payment service provider according to the principle of shared cost?

(51) Should card scheme rules which prevent price discrimination between payment instruments at the point of sale (e.g. no surcharge rules) be banned?

(52) Should scheme rules that limit cross-border issuing and acquiring be banned?

6.9.2. Direct Debit

(53) Is a MIF necessary for the SEPA Direct Debit? If so why? Why can't both sides to the payment be directly priced by their payment service provider according to the principle of shared cost? What alternatives are available?

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6.9.3. Infrastructure

(54) What barriers exist for competition in processing? What measures are necessary to ensure commercial interoperability of processors/infrastructure providers and create a level playing field for competition?

We share (in general) the findings of the Commission, DG Competition in the recent sector inquiry. Additionally, we want to communicate that in many cases, voting powers within payment schemes are biased towards "Issuers".

6.10. How to ensure the repositioning of cash and cheques?

(55) How can efficient payment instruments be promoted and cash and cheques be repositioned? How can the price signalling mechanism be improved to promote the use of the most efficient instruments?

(56) What legislation can be identified that encourages or makes the use of cash/cheques mandatory? What can be done to remove or diminish the effect of legislation identified above?

(57) What legislation can be identified that distorts price signals in the use of cash and cheques? What can be done to remove or diminish the effect of the legislation identified above?

(58) Are there other rules or market practices that favour the use of cash/cheques? Are there examples of best practice to reduce consumer reliance on cash without provoking consumer organisations?

(59) Are there any rules/regulations and market practices that hinder transparent and cost based pricing and use of electronic payment instruments?

(60) What practical problems exist that hinder the introduction of pricing of cash (deposits/withdrawals) and/or cheques?

The repositioning of cash and cheques should be left to the markets. From the regulatory side, it should be examined, if national central banks or other public institutions cross-subsidize cash or cheque handling.

6.11. Customer choice and mobility

(61) What are stakeholders' views on customer mobility and choice?

(62) To which extent would common and open customer-to-bank standards (e.g. ebanking standard, direct debit message standards, credit transfer form standards) contribute to reducing customer lock-in?

(63) Apart from the transparent pricing of payment services under the proposed directive on payment services and the initiative to set up an Expert Group on customer mobility in relation to bank accounts, are there any other initiatives that need to be undertaken now?

(64) Is there a need for bank account number portability? Should account numbers in Europe be harmonised? Can other identifiers be developed for directing payments?

A European common and open customer-bank-interface seems to be highly desirable. It should be introduced as an option.

Instead of introducing an bank account number portability, other identifying methods should be explored (analogue to the E-Mail / IP addresses in the Internet). These methods should be standardized.

6.12. E-invoicing

(65) How can e-invoicing be promoted?

(66) What are stakeholders views on the potential for e-invoicing with near universal reach to most business and consumers in the EU who are increasingly using ebanking?

(67) The Nordic countries have experienced exponential growth of e-invoicing. Users have experienced considerable savings and banks developed a convincing business case. Are there any reasons why a similar model could not be adopted to the rest of the EU?

(68) What standards are needed for the realisation of e-invoicing throughout Europe?

Is it sufficient to define standards for structured remittance data or are more complete schemes needed? Could one scheme and standard be developed that meets the needs of all potential users and ensure near universal reach?

(69) Can the EPC in cooperation with the relevant stakeholders set standards for e-invoicing? Should they be mandated to do this by a certain date?

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(70) What would be the role of different stakeholders in the process of promoting e-invoicing?

(71) Should e-invoicing be part of or form the core of a larger separate and more ambitious project to dematerialise the supply chain?

(72) Is there a role for governments/EC in promoting e-invoicing? (For example mandating their use. Or governments only admitting e-invoicing or charging supplements for paper invoices?)

At this stage, e-Invoicing should be not a priority of the SEPA project. As an option, it may be included, but with taking account the national cases where e-invoicing takes place already today.