

Euro and International Payments: SEPA

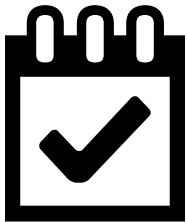
Flavio Caricasole

Head of Foreign Trade Services & Payment Systems

UBI  **Banca**
Global Transaction Seminar
Brescia, May 26th | 27th | 28th 2014

PSD

Directive 2007/64/CE denominated Payment Service Directive



Adopted in Italy since

1/3/2010



One of the first steps for the creation of SEPA, the single area of euro payments

PSD in a nutshell

- **PSD stands for Payment Services Directive.** It is the legal framework in EU/EEA for payment services inside the community and in the national currencies* of the community.
- PSD states the legal **minimum provisions that apply to payment providers and users inside EU/EEA.** It regulates value dates and availability of funds for all payments with a ordering party / beneficiary inside EU/EEA.
- **Main provisions for payments within EU/EEA and in the national currencies ***
- **Shared charging only** - No Bene-Deduct allowed
- Funds need to reach payee's payment provider within **one business day.**
- **Provisions for all incoming payment transactions**
- **Higher transparency** for payment service user before, during and after the transaction (e. g. regarding costs and charges)
- **Value date for the beneficiary must be on the same day** when credit is made available to the payee's service provider.

* EUR, GBP, BGN, CZK, DKK, GIP, HUF, HRK, ISK, LTL, NOK, PLN, RON, SEK and CHF (CHF for Liechtenstein only)

What is SEPA?

Political vision:

The euro area will be an internal 'domestic' market for retail payments generate scale economies and promoting competition

Concretely:

European payment instruments for both cross-border and domestic payments in euro: credit transfers, direct debit and cards

SEPA stands for **Single Euro Payments Area**.

- It harmonises the way Europeans make euro payments in 34 countries.
- To achieve
 - a common set of **payment instruments**
 - common **standards**
 - a **legal basis** for making payments across Europe fast, efficient and safe.

Why SEPA?

- European **Politics**
 - Improvement EMU and European economy: logic step after the euro introduction
- **Economics**
 - Internal market: volume, competition and innovations
- **Banking system**
 - To prevent 'further regulation' after Regulation 2560/2001 and 924/2009
 - Especially Cross-border banks can profit from new market circumstances

Benefits

- Efficiency, level playing field and transparency lead to **cost benefits** for society in the long run
- Reduction costs for average user of payment services in Europe
- Comfort/User-**friendliness**
- **Innovation**

Impacts

- **Consumers**
 - Use IBAN and BIC
 - Use of cards in the whole SEPA area
- **Firms (private and public)**
 - Easier cash-management and administration
 - Standard formats (ISO 20022 XML)
 - Use of IBAN and BIC
 - Centralisation of accounts and direct debits
- **Retailers**
 - More choice: terminal, acceptance of brands, acquiring
- **Banks**
 - Change of markets, new products, new systems

SEPA in a nutshell

SEPA stands for **Single Euro Payment Area** and was introduced to harmonise the European payment system. It includes mass payment transactions such as

credit transfers (SCT)

direct debits (SDD – Core and B2B) and

card payments (SCF)

The Area consists of **34 countries** (EU-28 plus Iceland, Liechtenstein, Norway, Monaco, San Marino and Switzerland). In 2013, Croatia became the most recent EU member state.

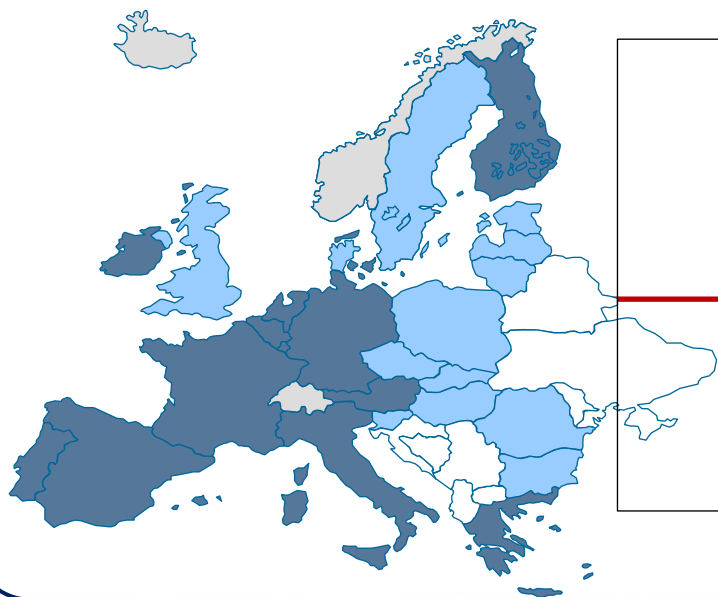
Primary advantages

- SEPA payment processes are used for **domestic** and **cross-border payments** within **all SEPA states**.
- **Uniform payment processes** make Euro(pean) payments faster, more secure and more convenient
- Companies and consumers can handle their euro payments with a **one-bank strategy**, benefitting from the advantages of reduced and transparent pricing and predictable validations
- SEPA offers the chance to fully **optimise the processing of euro payments**.

SEPA - Single Euro Payments Area *

SEPA is the vision of an area in which consumers, companies and other economic actors are able to make and receive payments in euro, whether between or within national boundaries under the same basic conditions, rights and obligations, regardless of their location.

At present, **the SEPA Countries are 34**: Austria, Belgium, Bulgaria, Cyprus, Croatia, Denmark, Estonia, Finland, France, Germany, Greece, Ireland, Iceland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Norway, the Netherlands, Monaco, Poland, Portugal, Czech Republic, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland, United Kingdom, Hungary, San Marino Republic.



- 523 million inhabitants.
- Around 9,300 institutions offer payment services.
- Over 26 billion CTs, over 22 billion DDs and over 39 billion card payments in € and other currencies.
- All EU payments in euro are directly subject to SEPA provisions.
- Payments in other currencies are partly affected (e.g. Payment Services Directive 2007/64; extension of Regulation 924/2009 on cross-border payments to payments in Swedish krona and Romanian lei).

* www.ecb.europa.eu

SEPA - Single Euro Payments Area *

SEPA consists of:

- 1. one currency:** the euro is the monetary basis for SEPA. The single currency is the political driver for the establishment of a common market for payments;
- 2. one set of euro payment instruments – credit transfers and direct debits;**
- 3. common technical standards;**
- 4. a harmonised legal basis;**

Key dates for SEPA migration

31 March 2012	Regulation No 260/2012 entered into force; pan-European reachability; phasing-out of €50,000 ceiling for equal charges to apply.
1 February 2014	Deadline for migration to SEPA credit transfer and SEPA direct debit within the euro area. No Business Identifier Code (BIC) to be required for national payments, unless Member State have decided to postpone to 1 February 2016.
1 February 2016	No BIC to be required for cross-border payments; niche products migration complete.
31 October 2016	Deadline for non-euro area countries to migrate euro-denominated payments to SEPA credit transfer and SEPA direct debit.

* www.ecb.europa.eu

General features

Regulation No 260/2012 sets 1st February 2014 as end date SEPA .

In accordance with this regulation, SEPA instruments must fulfill a set of requirements:

- 1. International Bank Account Number:** by February 2014, the IBAN will be the sole payment account identifier for national and cross-border credit transfers and direct debits in euro within the EU.
- 2. Business Identifier Code:** payment service users may still be asked to provide a Business Identifier Code (BIC) until 1 February 2014 for national payments, and until 1 February 2016 for cross-border payments.
- 3. ISO20022 XML message standard:** the use of the ISO20022 XML message standard is **mandatory**:
(i) between payment service providers; and (ii) for the bundled transmission of credit transfers and direct debits in euro by business users that are not microenterprises (microenterprises are enterprises with less than ten staff members and a turnover or a balance sheet total of up to €2 million).

SEPA STANDARDS

- IBAN
- BIC: until 1 Feb. 2016 (cross-border SEPA payments)
- ISO20022 XML
- Payment cards: migration from magnetic stripe to EMV chip
- Standards for payment cards and terminals

IBAN – International Bank Account Number

- ISO standard
- maximum: **34 digits**
 - 2 digits country code
 - 2 digits check digit
 - maximum: 30 digits account identification
→ country specific

IBAN structure: example



BIC – Business Identifier Code

- ISO standard
- maximum: **11 digits**
 - 4 digits institution code
 - 2 digits country code
 - 2 digits location code
 - 3 digits branch code (optional)

Payment Instruments

The new payment instruments offered by the financial industry to its customers will be based on a new set of rules, practices and standards for euro payments.

The **EPC has designed rulebooks** for new payment schemes and a common framework in which payment service providers can develop their SEPA payment products:

1. **SEPA Credit Transfers (SCT);**
2. **SEPA Direct Debits (SDD).**
3. **SEPA for Cards**

SEPA PAYMENT INSTRUMENTS

SEPA credit transfer

provides customers with a single means of transferring funds, regardless of whether it's within a single country or involves a cross-border payment

SEPA direct debit

makes it possible, for the first time, to charge directly an account in one European country for services provided by a company based in another country

SEPA for cards

will enable consumers to use the same cards they use in their own country for purchases everywhere in Europe more conveniently. For merchants, accepting cards will become easier and more attractive.

The **SEPA Credit Transfer (SCT)** is the payment service for euro credit transfer among the SEPA countries.

- **Payments are made for the full original amount – there are no deductions.** A customer involved in a credit transfer payment can only be charged by his own payment service provider (SHA);
- **140 characters of remittance information** are delivered without alteration or omission from the payer to the payee. These 140 characters can be unstructured (free text) or structured, as agreed between business partners.
- **Rejects and returns can be automated**, because they are handled in a uniform and predictable manner.

:20:FT11041722818697

:23B:CRED

:32A:110210EUR23600,00

:33B:EUR23600,00

:50K:/LV94AIZK0001140106987

CRESTPOINT TRADE LIMITED

GEORGIA TERRACE, 23/17, ALBANY, AUCKLAND, NZ, NZ

:57A:DRESDEFF321

:59:/DE51320800100760316200

DRATEC GMBH

WESTREUSSENSTR. 19, D-47809 KREFELD

:70:WELDING CONSUMABLES, INVOICE NO 20100013440, DATE 28.10.2010

:71A:SHA

New XML 20022 format (pacs)

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</PmtTpInf><IntrBkSttlmAmt  
Ccy="EUR">23600.00</IntrBkSttlmAmt><ChrgBr>SLEV</ChrgBr><Dbtr><Nm>CRESTPOINT TRADE LIMITED GEORGIA TERRACE, 23/17, ALBANY, AUC</Nm><PstlAdr><Ctry>LV</Ctry><AdrLine>KLAND, NZ, NZ</AdrLine></PstlAdr></Dbtr><DbtrAcct><Id>  
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List of ISO 20022 messages per Message Identifier/Business Area

acmt - Account Management

admi - Administration

auth - Authorities

caaa - Acceptor to Acquirer Card Transactions

camt - Cash Management

catm - Terminal Management

pacs - Payments Clearing and Settlement

pain - Payments Initiation

reda - Reference Data

remt - Payments Remittance Advice

seev - Securities Events

semt - Securities Management

sese - Securities Settlement

setr - Securities Trade

trea - Treasury

tsin - Trade Services Initiation

tsmt - Trade Services Management

tsrv - Trade Services

www.iso20022.org



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The **SEPA Direct Debit (SDD)** allow a creditor (biller) to **collect funds** from a debtor's (payer's) account, provided that a signed **mandate** has been granted by the payer to the biller. A mandate is signed by the debtor to authorize the creditor to collect a payment and to instruct the debtor's bank to pay those collections. Mandate forms to be completed by debtors (customers purchasing goods or services) are usually provided by creditors (retailers or service providers) themselves.

There are **two SDD schemes**:

- the first is called **SDD CORE** and allows collections from both consumer and corporate accounts. Security for the debtor is instead based on a “no questions asked” **refund right (8 weeks)**.
- The other scheme is **SDD B2B** and which is a closed scheme only allowing debiting of accounts that belong to businesses or institutions. B2B is a voluntary scheme for banks to support, and bank reachability is therefore more limited than for the CORE scheme. The main differences in comparison to SDD CORE are the shorter time cycle and finality of payment, i.e. the **debtor has no refund right**.

SEPA Direct Debit (introduced in 2009)

SEPA Direct Debit:

- Standard for bank to bank Direct Debits in euro (B2C and B2B)
- Payments are made for the full original amount
- IBAN and BIC are obliged
- ISO 20022 UNIFI standards (XML-language)
- One-off or recurrent
- A mandate is signed by the debtor
- Pre-notification: mostly 14 calendar days in advance
- Refund right: 8 weeks for Core without reason, non refund for B2B
- Unpaid items: 5 days for CORE, 2 days for B2B



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