



EUROPEAN COMMISSION

Internal Market and Services DG

FINANCIAL INSTITUTIONS

Retail issues, consumer policy and payment systems

Brussels, 9 November 2009

MARKT/H3/ZK/GH D(2009)

## SECOND ANNUAL PROGRESS REPORT ON THE STATE OF SEPA MIGRATION IN 2009

### 1. SEPA IN 2009: GEAR SHIFTED – NOW LOOKING FOR TRACTION

This report was prepared in the frame of the SEPA migration review process initiated by the ECOFIN and provides an update on important SEPA related developments in the past year.

2009 has been an ambivalent year in terms of SEPA progress. On the positive side, a crucial milestone has been achieved with the launch of the SEPA Direct Debit (SDD) scheme on 2 November. Despite the impact of the financial crisis and internal debates on the SDD business model, the EPC and banks maintained their commitment to the SEPA project. Bringing this new scheme to life represents a shift in gear which can provide a new momentum to the SEPA project as a whole.

On the more negative side, the actual SEPA Credit Transfer (SCT) take-up is lagging behind expectations. According to the Eurosystem's euro area SCT indicator, in August 2009 only 4.5 %<sup>1</sup> of all credits transfers in the euro area were processed in the SCT format. This figure is not satisfactory in light of the fact that SCT was launched in January 2008. High-volume payment users such as public administrations – even if strongly committed to SEPA – are slow in migrating to SEPA.

Without doubt, the financial turmoil and economic crisis have played an important role in this respect. Both providers and users of payments services have carefully scrutinised their investments and focussed on critical business operations. Migration efforts to SEPA may, therefore, have suffered from de-priorisation on both the supply and demand side of payment services.

---

<sup>1</sup> <http://www.ecb.int/paym/sepa/timeline/use/html/index.en.html>

However, the financial crisis has also shown the vital importance of a stable and properly functioning payment system to the wider economy. The payments business roughly accounts for one third of the operational costs of the banks. By overcoming current fragmentation in the payment markets, banks can realise significant operational cost savings. This therefore strongly emphasises the need for further integration of EU retail payments market through SEPA.

Extrapolating the current trend of SCT migration, it is becoming obvious that the deadline originally set up by the EPC, namely the migration of a critical mass for both SCT and SDD by end-2010, has become unrealistic. Based on current SCT migration data and on migration plans by public administrations to progressively start using SCT, the SCT migration rate would reach only 20 % by end-2010 and 30 % by end-2011 following the SCT migration by some corporates.

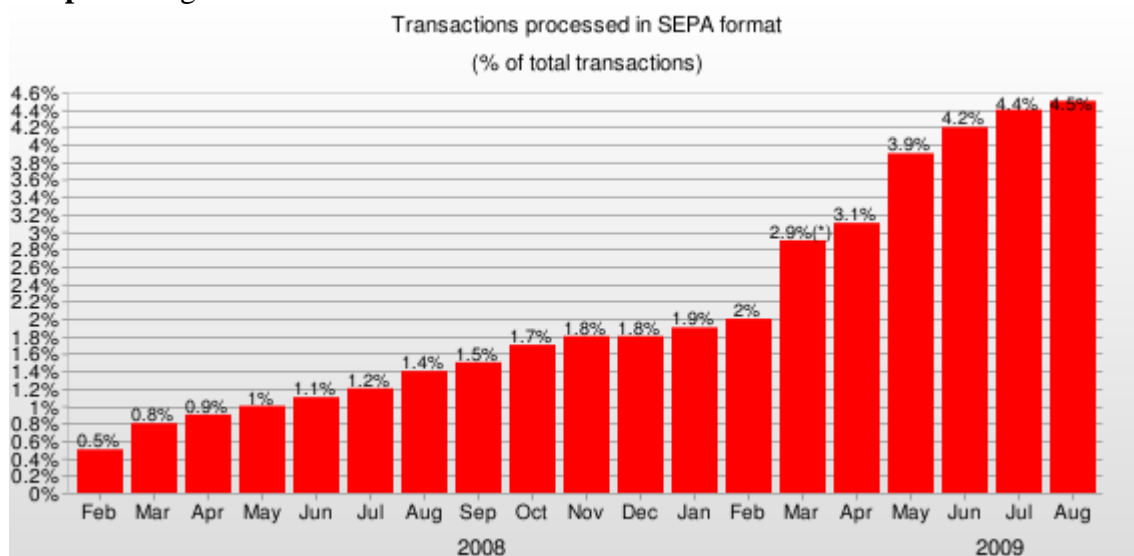
In order to inject new dynamism and increased commitment from all related parties into the whole SEPA project, the Commission adopted in September 2009 a Communication on a SEPA Roadmap<sup>2</sup>, defining individual actions with clear deadlines under six priority areas to achieve full SEPA implementation. Progress on the identified actions will be closely tracked against the timelines defined in the Roadmap.

## 2. STATE OF PLAY ON SEPA MIGRATION

### 2.1. SEPA credit transfer uptake

SCT migration has steadily but slowly continued to rise from a low base during 2009. In August 2009, the SCT migration rate was 4.5 %, according to the Eurosystem's euro area SCT indicator<sup>3</sup>.

**Graph 1:** Migration to SCT



Source: ECB

<sup>2</sup> [http://ec.europa.eu/internal\\_market/payments/docs/sepa/com\\_2009\\_471\\_en.pdf](http://ec.europa.eu/internal_market/payments/docs/sepa/com_2009_471_en.pdf)

<sup>3</sup> <http://www.ecb.int/paym/sepa/timeline/use/html/index.en.html>

As Graph 1 shows, the SCT indicator has increased significantly in March 2009 when a new clearing and settlement system became operational in Slovenia. This system replaced the legacy infrastructure and as a consequence most domestic payment traffic has already migrated to SCT. Another positive example is Belgium, where general SCT migration has been supported by the fact that paper transfer forms issued by the public sector now use the SCT format and a number of major public administrations, such as the public pension office, have started to use SCT.

## **2.2. SCT migration by public administrations**

### *2.2.1. Background*

Public administrations (PA) play a fundamental role in SEPA migration. In the euro area, the public sector represents around 45 % of the GDP and around 15–20 % of all credit transfers. Given the substantial benefits of SEPA to the wider economy, PA can and should play a catalytic role in creating the critical mass that is needed to accelerate migration towards SEPA.

To regularly measure the contribution of PA to the progress of SEPA, the Commission services published in July 2009 its second survey results on the preparedness and migration of PA to SEPA<sup>4</sup>. In order to provide the latest available information on PA migration, Member States were given the opportunity to update and/or correct the second survey results, where needed. On this basis, replies from 107 different PA across 26 Member States have been analysed. Denmark did not provide any survey reply and is therefore not covered in below analysis. For the euro area, replying PA represent almost 85 % of the estimated total PA credit transfer transaction volume at central government level excluding PA at regional or municipality level.

### *2.2.2. State of migration*

#### **Current SCT take-up**

The survey results indicate most PA still have not migrated to SCT even though there are a few notable exceptions. In terms of actual SCT migration by PA, the weighted SCT rate for the PA having replied to the survey in the euro area stands at 1.5 % (status September 2009)<sup>5</sup> which is significantly below the overall migration rate in the euro area (4.5 % in August 2009). Annex 1 shows the weighted average SCT migration rate in replying PA per Member States.

---

<sup>4</sup> [http://ec.europa.eu/internal\\_market/payments/docs/sepa/publ\\_adm\\_migration-2009\\_07\\_en.pdf](http://ec.europa.eu/internal_market/payments/docs/sepa/publ_adm_migration-2009_07_en.pdf)

<sup>5</sup> This rate decreased from 2.3 % shown in the 2<sup>nd</sup> survey (status March 2009) to 1.5 % in the current update due to a statistical effect, namely that France provided an updated survey reply representing all of its PA transactions. Given that France has a very large number of PA transactions (852 million) and has not started to use SCT yet, this drove down the euro area average considerably by increasing the statistical base compared to the previous survey. It is therefore important to note that this should not be perceived as an actual decline of SEPA transactions in the euro area compared to the survey results published in July 2009.

The delay of migration by PA is driven by effects which are characteristic for network-based processes such as payments. While SEPA investment is individual, its full benefits are only attained when substantially all parties have migrated. Consequently, first movers experience a, potentially significant, disadvantage through incurring duplicate costs for the maintenance of dual payment systems (the legacy and the new SEPA one) during the migration period. Uncertainty caused by the lack of a definitive end-date for migration and the future of legacy payment systems makes it difficult to plan migration projects, secure internal budgetary approval for the necessary investment resources and set according deadlines for migration.

There are however three Member States which beat the general average SCT migration trend by a large margin and hence lead by example for a successful migration to SEPA, namely Luxembourg, Slovenia and Belgium, with SCT rates of 100 %, 60 % and 18 % respectively. For PA in the remaining Member States, the SCT migration rate is either below the average national SCT rate or even zero. It is therefore obvious that PA do not yet appear to be leading the SCT migration.

### **PA coordination and common target dates**

From a more forward looking perspective there were a number of encouraging survey results:

- An increased trend towards better coordination between PA at national level can be observed. For example, this is demonstrated by the fact that eight Member States (Austria, Belgium, Cyprus, France, Malta, Netherlands, Spain and Sweden) have set up dedicated central steering bodies to drive SEPA migration of PA. Of these Member States, Belgium, France and Malta have set up an inter-ministerial steering body. In Austria, Netherlands Spain and Sweden this coordination role is fulfilled by the Ministry of Finance/State Treasury and in Cyprus by the national central bank.
- The number of Member States which have established a common end-date for phasing out legacy credit transfers (CT) in all PA has doubled compared to the first survey results. These are:
  - **mid-2010:** NL (all central government departments, excluding tax authority);
  - **end-2010:** BE (stop processing legacy paper forms; target date for critical mass of electronic CT) and AT (target date for federal administrations);
  - **end-2011:** FR (target date for all PA) and CY (for NCB which serves as payment service provider for Treasury and Social Insurance);
  - **mid-2012:** SK (target date for all PA).

Additional positive examples can be observed in several individual PA where a common national target end-date does not exist yet. These administrations have set their own specific target dates: in Spain (central administration for public pension payments by end-2009), in Italy (central public salary and pension payments by beginning 2010), in Germany (Bundesagentur für Arbeit by end-2010) and in Finland (central tax and social insurance institutions by end-2010).

## Technical preparedness for SEPA

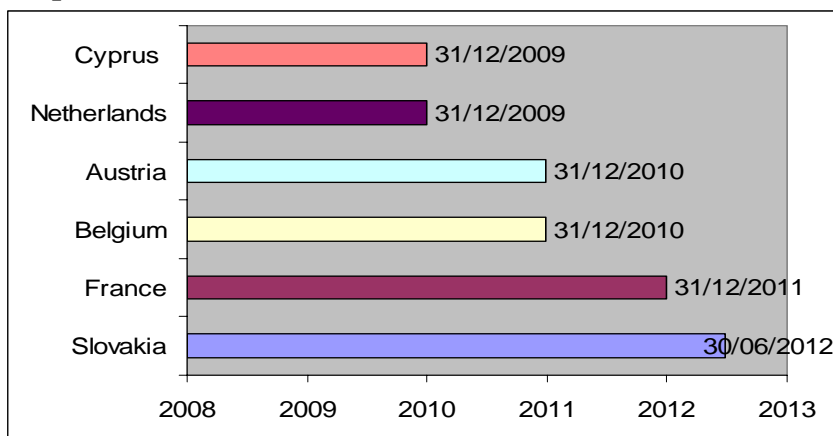
General SEPA awareness in PA is relatively high. More than 80 % of replying PA have appointed a SEPA project manager with a dedicated responsibility for SEPA migration. This percentage is weighted on the basis of the total number of credit transfers made by these PA.

However, from the point of view of technical preparedness, results are much less positive. Two aspects are critical for the migration to SEPA, namely the use of IBAN and BIC as account number and bank identifiers for credit transfers, and the use of the ISO 20022 XML messaging format.

Concerning the use of IBAN/BIC, only 10 % of replying PA (weighted by transaction volume) have fully migrated; 12 % have partially started to initiate domestic payments with IBAN and BIC and 78 % are not yet using IBAN/BIC at all. Notably, a number of Member States (Luxembourg, Latvia, Lithuania, Greece, Slovenia, Bulgaria and Romania) already use IBAN/BIC nationally as domestic identifiers.

On the positive side, PA in six Member States have set a common target date for all PA for conversion from domestic account number (BBAN) to IBAN and BIC.

**Graph 2:** Member States with an end-date for IBAN/BIC conversion for all PA



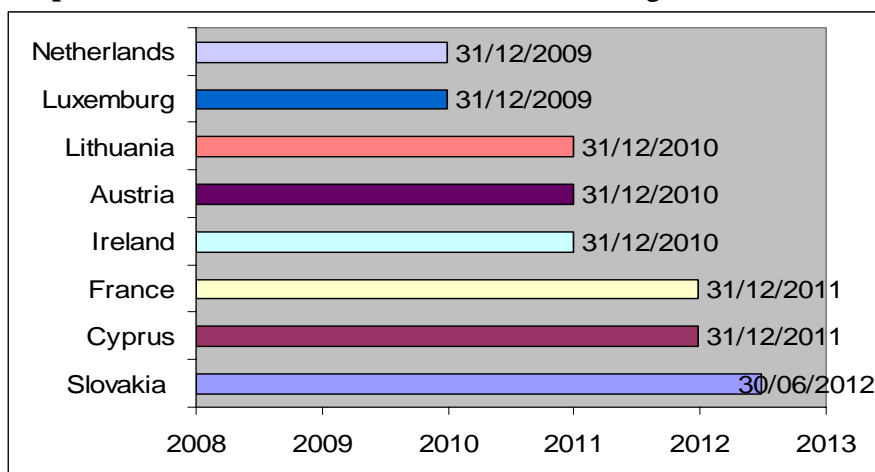
**Note:** In the case of France, the above deadline is a technical consequence of the SCT target date and therefore it is de facto also the target date for IBAN/BIC conversion.

No common conversion deadline has been set up in 13 Member States, namely Estonia, Finland, Ireland, Italy, Germany, Malta, Portugal, Spain, Czech Republic, Hungary, Poland, Sweden and United Kingdom. However, several PA in these Member States have defined their individual end-dates for the conversion from BBAN to IBAN/BIC, namely in Germany, Spain, Finland, Hungary and Ireland.

As regards the ISO 20022 XML message format, only 1 % of replying PA (weighted by transaction volume) have fully migrated; 8 % partially use the ISO 20022 format and 91 % are still submitting payment instructions using legacy message formats for credit transfers.

On the positive side, PA in eight Member States have set a common target date for all PA in terms of migration to ISO 20022 XML format.

**Graph 3: Member States with an end-date for migration to ISO 20022 format in all PA**



**Note:** In the case of France, the above deadline is a technical consequence of the SCT target date and therefore it is de facto also the target date for migration to ISO 20022.

It should however be noted that the target date for Ireland is currently under review and the target date of end-2010 in Lithuania is limited to euro payments only. In addition, banks in Sweden already convert existing national formats into ISO 20022 XML formats on behalf of their customers when using SCT.

The vast majority of Member States have not yet set up a common transition plan to fully switch from national format to the ISO 20022 XML format, namely Belgium, Germany, Estonia, Finland, Greece, Italy, Malta, Portugal, Slovenia, Spain, Bulgaria, Czech Republic, Hungary, Latvia, Poland, Romania and United Kingdom. However, several PA in some of these Member States have defined their individual end-dates for switching from national format to the ISO 20022 XML format (Belgium, Germany, Finland and Slovenia).

## Conclusions

During 2009, most PA still focused on planning for SEPA rather than actually driving migration. However, commitment to SEPA in the public sector seems to be on the rise as is shown by an increasing number of PA migration end-dates, either defined at central government level or within individual PA. Consequently, a significant increase in SCT rates should be expected in the course of 2010, particularly as these migration end-dates approach. For the Member States or individual PA which have already established an end-date it is therefore critical to stay committed to this deadline and avoid any delays. For other Member States and PA, in particular in the euro area, introducing such an end-date would prevent them from falling too far behind early movers.

### 2.3. SCT migration by the European Institutions and the ECB

Beyond providing political support to the SEPA project as a whole, the European Commission is an important user of payment instruments in itself. Annually, the volume of credit transfers initiated by the Commission adds up to 1.6 million.

The Commission has already made significant progress on its own migration to SEPA. The Commission has to deal with more than 290.000 beneficiary accounts in the SEPA countries. Around 94 % of them have already been converted to IBAN/BIC and this rate is expected to be at 100 % by the end of 2009. The Commission also expects to achieve technical capability for the use of the ISO 20022 XML format by the end of 2009.

Furthermore, in June 2009 the Commission has launched a call for tender for the provision of its payment services. One of the selection criteria of this tender is the capability of applying banks to provide SEPA payment instruments. Contracts will be awarded by the end of November 2009, so that the execution of SCT transactions can start at the beginning of 2010. It is expected that a critical mass of SCT transactions will be reached in early 2010 upon which the Commission may decide to establish an end-date for its own use of legacy credit transfers.

The Council uses IBAN/BIC for all its credit transfers while ISO 20022 XML format is still not yet used.

As regards the European Parliament, IBAN and BIC are used for all credit transfers with the exception of credit transfers made within Belgium. The latter represent around 50 % of the European Parliament's payment transaction volume. Payment instructions are still submitted to its payment services provider in national file format.

The ECB has fully migrated to SCT as of end January 2008.

## **2.4. SEPA direct debit migration**

### *2.4.1. Official Launch of the SEPA Direct Debit scheme*

As from 2 November 2009, European banks have started, for the first time, to offer customers, both consumers and corporates, the new SEPA Direct Debit (SDD) services which can be used for national and cross-border euro direct debits throughout the 32 SEPA countries<sup>6</sup>. Before SDD, there was no scheme in place for making cross-border direct debits.

To date, over 2 600 European banks, representing about seventy per cent of SEPA payment volumes, have signed up for both the core and business-to-business scheme<sup>7</sup>. A detailed breakdown of the number of banks adhering to the EPC SDD schemes can be found in Annex 2.

To measure the SDD uptake, the Eurosystem will monitor migration to SDD through its SDD indicator following the similar approach as for SCT (euro area SDD indicator with monthly frequency; national SDD indicator with six month reporting period).

### *2.4.2. SDD Reachability*

SDD requires that banks and infrastructures support both the SDD schemes and the SEPA format and standards. A crucial condition for the market acceptance of the SDD is assurance for creditor banks that debtor accounts at the debtor bank can be reached using the SDD. If creditor banks are not sure that they can reach debtor accounts using the SDD, then creditors cannot be sure that they will be paid using the SDD and will therefore not offer SDD to their customers. This is especially important considering that

---

<sup>6</sup> EU 27, plus Iceland, Liechtenstein, Norway, Switzerland and Monaco.

<sup>7</sup> Some national banking communities have decided to postpone their actual SDD launch. For instance, the Spanish banking community has decided on the common national SDD launch date in June 2010; the launching date in the Netherlands is mid-2010; Portugal in July 2010; France and Slovenia in November 2010.

the creditor usually initiates direct debit collections in batch files (e.g. once a month for electricity or other utility bills) and not as separate collections for each customer.

The new Regulation on cross-border payments<sup>8</sup>, which applies as from 1 November 2009, stipulates that this reachability becomes mandatory for debtor banks in the euro area as from 1 November 2010. For banks from the non-euro area, the deadline is 1 November 2014. This reachability obligation requests that if a debtor bank allows direct debit collection in euros under the existing national direct debit scheme, then the debtor bank should also allow direct debit collection using the SDD. Customers themselves will always retain the right to decide whether or not to accept a direct debit on their bank account. Furthermore, if the debtor bank is not reachable for direct debit transaction in euros, which could be the case for example in a non-euro country if there is no direct debit in euros, then clearly there should be no reachability obligation.

#### 2.4.3. SDD business model

##### **Short-term business model**

In order to provide the legal clarity that industry needed to launch the SDD, the new Regulation on cross-border payments allows for a transitional period of 3 years during which a Multilateral Interchange Fee<sup>9</sup> (or MIF) can be applied for cross-border direct debits in euro. This fee is fixed at a maximum per transaction MIF of 8.8 eurocents for each cross-border SDD. The parties to a multilateral agreement should, however, be free to determine a lower amount or agree on a zero multilateral interchange fee.

When SDD is used domestically, the same national interchange fee or other agreed inter-bank remuneration applies in case one existed previously. If however a national competition authority requires the reduction of a national direct debit MIF, then this will apply to the national SDD MIF as well.

The transitional arrangement in the revised Regulation aims at encouraging the industry to use this 3-year period to develop a long-term business model for the SDD which complies with competition rules and could therefore be used after the end of the transitional period as from 1 November 2012.

##### **Long-term business model**

On 24 March 2009, the European Commission and the ECB issued a joint statement<sup>10</sup> providing further clarification on a long-term business model for the SDD. In particular, the European Commission made it clear that after the transitional phase a general per transaction MIF for direct debit transactions does not seem justified for efficiency reasons and therefore does not appear compatible with EU antitrust rules.

---

<sup>8</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:266:0011:0018:EN:PDF>

<sup>9</sup> This is a fee paid by a payee (creditor) bank to a payer (debtor) bank for each direct debit transaction.

<sup>10</sup> <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/468&format=HTML&aged=0&language=EN&guiLanguage=en>

Additionally, on 3 November 2009 the European Commission has opened a public consultation on a Commission working document<sup>11</sup> that aims to provide further guidance to market participants to ensure that collective financing arrangements supporting the SDD scheme comply with EU competition rules.

#### *2.4.4. Continuity of existing direct debit mandates*

Today, in some Member States, the direct debit mandate which is signed by the debtor (payer) to authorise the creditor (payee) to collect a direct debit is held by the debtor's bank (Slovakia, Italy, Portugal, France, Finland, Sweden, Czech Republic and Hungary). Under the SDD scheme the mandate will remain with the creditor. Consumers will have to be reassured that the new SDD offers them at least the same guarantees and protection that they currently enjoy. Some so-called 'Additional Optional Services' could therefore be developed by the banking communities concerned to at least maintain the current service level and offer customers the same level of guarantee and security.

It is, however, crucial that such 'Additional Optional Services' do not cause further fragmentation and are provided in a transparent way. An overview of the current mandate model used in each Member State is enclosed in Annex 3.

Another important aspect in this context is the continued legal validity of existing direct debit mandates when migrating to SDD. With the important exception of Germany, this issue has been addressed in all Member States. An overview of the current state of play and potential solutions envisaged by each Member State is enclosed in Annex 4.

### **2.5. SEPA compliance of payment cards**

The general trend shows that developments in the card area are rather stagnating. However, the recent creation of a Cards Stakeholder Group by the EPC is a promising step in the right direction. For the first time, all relevant stakeholders representing five sectors<sup>12</sup> meet on a regular basis in order to discuss cards standardisation issues.

While the outcome of the work of this Cards Stakeholder Group will be subject to the next Progress Report, this section focuses on assessing EMV<sup>13</sup> implementation and provides information on newly emerging European card schemes and on compliance of 3-party card schemes with the EPC SEPA Cards Framework.

---

<sup>11</sup>

<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1666&format=HTML&aged=0&language=EN&guiLanguage=en>

<sup>12</sup> Banks, retailers, card and terminal manufacturers, processors and card schemes.

<sup>13</sup> This represents a technical specification for chip cards. The acronym EMV is formed by the initials of Europay, MasterCard and VISA, the three companies which originally cooperated to develop this specification. EMVCo (the body that manages these standards) is currently operated by Visa International, MasterCard International and JCB International.

### *2.5.1. EMV implementation*

The EPC SEPA Cards Framework (SCF) supports EMV as the technical norm because of the higher security level it offers through the use of chip (in combination with a PIN) instead of magnetic stripe. Therefore, SCF compliant cards, POS terminals (point-of-sales) and ATMs (automated teller machines) will have to migrate to EMV by end of 2010. To date (data refers to Q2 2009), across the 27 EU Member States, EMV compliance stands at 72 % for cards (up from 62 % shown in the last Progress Report), 77 % for POS (up from 68 %) and 93 % for ATMs (up from 83 %). Detailed EMV compliance by each Member States is illustrated in Annex 5.

### *2.5.2. New European card schemes*

There are currently three initiatives on the way with the aim to create a new European card scheme which would challenge the otherwise expected predominance of international card schemes in Europe.

**EAPS**, the European Alliance of Payment Schemes – a 'scheme of scheme', interlinks existing national debit card and ATM schemes. Currently, six schemes from Italy, Germany, Spain, United Kingdom and Portugal participate in EAPS. Together, EAPS participants represent more than 222 million cards; 2.2 million POS payment terminals and almost 200 000 ATMs. In August 2009, an important milestone has been reached by interconnecting the ATM networks in Italy and Germany thereby allowing cardholders of domestic debit card schemes from both countries to withdraw money from Italian and German ATMs respectively. According to the figures provided by the EAPS, in the third quarter of 2009, 100 000 cross-border EAPS transactions per month have been made.

**Monnet**, which currently involves primarily major French and German commercial banks, is still in the preparatory phase and has not started being operational yet.

**Payfair** is a retailer-driven initiative whose first target market is Belgium where preparations for the market launch are well under way. A test pilot with one of the biggest Belgian retailers was launched beginning of November. Payfair is expected to expand its geographical reach to other European countries, such as Germany, where a cooperation agreement for the acceptance of Payfair cards with Easycash, Germany's largest acquiring processor and network provider, has been signed and publicly disclosed on 22 September 2009.

### *2.5.3. Compliance of 3-party schemes with SCF and related amendments of the SCF*

The EPC has started work on the update of the SCF. A review of the SCF became necessary due to the Payment Services Directive and the Eurosystem's Oversight Framework for Card Schemes. The main changes concern some clarifications on what constitutes SEPA/SCF compliance, the alignment with EPC's Question & Answers clarifying key aspects of the SEPA Cards Framework<sup>14</sup> as well as a clearer definition of three-party schemes.

---

<sup>14</sup> <http://www.europeanpaymentscouncil.eu/documents/EPC075-SCF%20QAs%20Version10%20Final.pdf>

In an open letter of 4 June 2009 regarding the application of the SCF to three-party schemes<sup>15</sup>, the EPC clarified that the SCF is neutral as to the corporate structure and business model of card schemes and thus applies to both, four-party and three-party models. However, card schemes falling within the scope of Article 28(2)(c) of the PSD only need to comply with certain sections of the SCF in order to become SCF compliant.

The Cards Standardisation 'Volume' which builds on the SCF aims to set principles for technical interoperability and gradual convergence of the standards which underpin the end-to-end card processing chain. A new version of the Volume is planned to be ready by the end of 2009.

## **2.6. Migration end-date**

### *2.6.1. Increasing calls for (an) end-date(s)*

The need to speed up SEPA migration has been stressed by various European institutions<sup>16</sup>. The European Parliament called on the Commission to set a "clear, appropriate and binding end-date, which should be no later than 31 December 2012, for migrating to SEPA instruments". The Governing Council of the ECB also stated in the 6<sup>th</sup> SEPA Progress Report that "setting a realistic, but ambitious end-date for the migration to SCT and SDD is a necessary step in order to reap the benefits of SEPA early".

There are also increasing market calls for such an action<sup>17</sup>: on the supply side, from parties such as the EPC, the clearing and settlement infrastructures (which process payments), and on the demand side from the EACT (European Association of Corporate Treasurers) and the EUC (European User Committee – a consortium of customers), although user support is often conditional.

### *2.6.2. Results of the public consultation launched by the Commission*

In order to canvas views and collect information from stakeholders, the Commission has completed an extensive public consultation on the subject. 136 written responses were received, both from the supply and demand side, which shows the strong interest of the market in the subject.

---

<sup>15</sup>

[http://www.europeanpaymentscouncil.eu/documents/Letter\\_EPC124\\_09\\_Open%20Letter%20on%20a%20application%20of%20the%20SCF%20to%20three%20party%20card%20schemes.pdf](http://www.europeanpaymentscouncil.eu/documents/Letter_EPC124_09_Open%20Letter%20on%20a%20application%20of%20the%20SCF%20to%20three%20party%20card%20schemes.pdf)

<sup>16</sup> Economic and Financial Affairs Council, Conclusions (p. 17), 10 February 2009, [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ecofin/106007.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/106007.pdf). European Parliament, Resolution on the implementation of the Single Euro Payments Area (SEPA), 9 March 2009, <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P6-TA-2009-0139+0+DOC+XML+V0//EN>. European Central Bank/Eurosystem, Sixth Single Euro Payments Area (SEPA) progress report, November 2008, <http://www.ecb.int/pub/pdf/other/singleeuropaymentsarea200811en.pdf>.

<sup>17</sup> European Payments Council, Recommendation on an end-date for migration to SEPA schemes, 31 March 2009; Public Statement of Infrastructures promoting the SEPA Progress, 14 April 2009; EBA CLEARING, European banks prepare for SEPA Direct Debit Services, Press Release, 6 April 2009; European Association of Corporate Treasurers, Single Euro Payments Area: EACT favours setting an end-date for SEPA credit transfers, Press release, 15 October 2008.

The results of the public consultation showed that a large majority of respondents support the idea of setting some deadlines (end-dates) to stimulate migration to SEPA credit transfers and direct debits and to fully reap the potential benefits of the SEPA project. Many stakeholders, in particular users, however underlined that some conditions should be met before such end-dates could be set. These conditions include the need to enhance the quality of the SEPA schemes to meet adequately users' needs and to give users enough time to use the new products.

The end-date(s) should be set at European level, according to most of the respondents, but with some flexibility allowed at national level to set earlier end-dates in order to take into account the specificities and degree of readiness of each market. A majority of respondents also indicated their preference for an EU regulation so as to provide a clear signal to market participants that SEPA migration was now irreversible. Some emphasised the need for greater involvement of all stakeholders in the decision-making process. For a large majority of respondents, an end-date should also be set separately for, respectively, SCT and SDD, since both schemes were not launched at the same time and do not have the same level of maturity.

### *2.6.3. Situation at Member States' level*

SEPA migration end-dates have also been defined at national level. This is the case for seven Member States in the euro area concerning both their migration to SCT and SDD (Belgium, Finland, France, Ireland, Cyprus, Slovenia and Spain), as well as four Member States for their migration to SCT only (Luxemburg, Portugal, Slovakia and Malta) and one Member State for its migration to SDD (Greece). In total, these Member States represent 38 % of the volume of current payments (credit transfers and direct debits) made within the euro area. In the non-euro area, four Member States (United Kingdom, Estonia, Latvia and Romania) also established an end-date for their SCT migration.

Most of these end-dates are however target dates based on an estimation of market evolution. A large number of these end-dates are also conditional to the reaching of a certain critical mass of SEPA payments. These end-dates have usually been or will be decided on a self-regulatory basis in all the Member States concerned. Users were or will in some cases be involved as well, but rather for consultative or informative purposes.

## **3. PRICING OF SEPA INSTRUMENTS**

It is still far too early to discuss the real impact of the introduction of SEPA on prices of payment services, as the overall migration rate to SCT remains below 5 % and the SDD scheme has just been launched. It is however expected that individual consumers will benefit from decreasing prices of SEPA payments mostly in the medium to long term, when payment volumes will trigger cost reductions based on scale effects and when increased competition between payment service providers is expected to drive prices down.

The European Commission will systematically monitor the evolution of charges for the SEPA payment instruments. A price study on current accounts for consumers has already been conducted by independent consultants in the period February–April 2009<sup>18</sup>.

However, tariff monitoring is not sufficient to assess the impact of the introduction of SEPA instruments on prices of payment services. Transparency of information on the new products, their characteristics and any hidden costs are also essential. For this reason the study recommends to:

- Take full account of the diversity of usages, pricing models and practices among countries;
- Urge all banks to make their complete tariffs publicly available on their web sites, in the clearest possible, possibly standardised way;
- Envisage in each Member State and at EU level a central price comparison web site (owned by e.g. National Central Banks and the European Central Bank) where banks provide their tariffs annually in a predefined format.

#### **4. COMPETITION WITHIN SEPA**

##### **4.1. Anecdotal evidence of market consolidation**

The market for transaction processing, traditionally a mainly 'national' business assisted by international players for cross-border transaction only, was the first to start adjusting to the SEPA reality in which cross-border transactions within SEPA become 'SEPA-domestic' transactions. Several mergers between the former national processors have been established, as well as cooperation arrangements to reciprocally provide European-wide reach. A recent example is the merger between Norwegian BBS and Teller and Danish PBS announced in September 2009. Another positive example is the acquisition of Easycash, a payment services provider based in Germany, by Ingenico in September 2009. Ingenico is a provider of payment solutions, with over 15 million terminals deployed in more than 125 countries.

Simultaneously, former purely cross-border processors are keen to enter into the SEPA-domestic transactions market. Supported by the PSD, the existing or new pan-European payment service providers might have better chances for successfully offering payment services to end-users. Less evidence of market consolidation was witnessed in retail banking.

---

<sup>18</sup> The survey on the prices of current accounts is available at: [http://ec.europa.eu/consumers/rights/docs/study\\_bank\\_fees\\_en.pdf](http://ec.europa.eu/consumers/rights/docs/study_bank_fees_en.pdf). See also EU report on retail financial services: [http://ec.europa.eu/consumers/index\\_en.htm](http://ec.europa.eu/consumers/index_en.htm).

## 4.2. Investigations into MasterCard and VISA and their impact on further SEPA development

The Commission decision of 19 December 2007 ruled that MasterCard's MIF for cross-border payments with MasterCard and Maestro branded payment cards violate competition rules. The Commission also sent a Statement of Objections to VISA on 3 April 2009. It contains a competition assessment of MIFs in mature payment card systems that is similar to the one in the MasterCard decision. The Commission, however, made it clear in both cases that MIFs are not considered being illegal as such as long as they contribute to technical and economical progress and benefit consumers.

Following the 2007 Decision, MasterCard provisionally repealed its cross-border MIF, but subsequently increased its scheme fees. In April 2009, MasterCard announced to apply a new methodology to its MIF for cross-border transaction, leading to a maximum weighted average MIF per transaction of 0.30 % for consumer credit cards and 0.20 % for consumer debit cards. MasterCard also agreed to withdraw the increase of its scheme fees and to change its system rules in order to increase transparency and competition in the payment cards market. Given MasterCard's undertakings, the Commission did not see the need to pursue this case further. An appeal procedure by MasterCard to the 2007 Decision is pending with the European Court of Justice.

MIFs are an important part of the total cost that retailers must pay for accepting payment cards, and in effect establish a minimum price for retailers which is often passed on to customers. MasterCard's current maximum level for cross-border MIFs has set the benchmark for the pricing of debit and credit card transactions in Europe. Although a lower MIF could boost card acceptance and usage, leading eventually to higher earnings for issuing banks, the latter may fear a loss of revenues in the short- and medium-term and could therefore abstain from promoting any card product with a lower MIF. By contrast, a higher MIF may raise competition concerns if such MIF level is not properly justified and it may be difficult to find merchants willing to pay higher fees.

## 5. STATE OF PLAY ON PSD TRANSPOSITION

The transposition deadline of 1 November for the PSD has been respected by 17 Member States (see table below). Seven Member States are expected to finalise the PSD transposition by end-2009 (Cyprus, Estonia, Greece, Latvia, Lithuania, Poland, and Slovakia) while in the remaining three Member States, the PSD transposition is expected during the first half of 2010, namely in Finland, Sweden and Belgium.

**Table 1:** PSD transposition – situation as of 1 November 2009

Member States where the PSD transposition has been completed	Member States where the PSD would should be transposed by end-2009	Member States where the PSD would be transposed or the national measures will enter into force after 1 January 2010
AT, BG, CZ, DK, DE, ES, FR, HU, IE, IT, LU, MT, NL, PT, RO, SI and UK	EE, EL, LV, LT, PL, CY and SK	BE, FI and SE

**Annex 1: Weighted average SCT rate in individual PA having replied to the survey**

Member State (MS)	Number of replies by individual PA	Estimated total number of credit transfers (CT) made by all PA in MS in 2008 (millions)	Number of CT in 2008 by individual PA responding to survey (millions)	Estimated share of replying individual PA as percentage of total number of CT by all PA	SCT weighted average in replying PA (September 2009)
Austria	1	30.0	30.0	100.0 %	3.3 %
Belgium	28	125.0	88.9	71.1 %	17.6 %
Cyprus	3	3.0	3.0	100.0 %	0.0 %
Finland	4	70.0	70.0	100.0 %	0.0 %
France	2	852.0	852.0	100.0 %	0.0 %
Germany	4	315.0	284.0	90.2 %	0.1 %
Greece	1	5.5	0.3	5.5 %	0.0 %
Ireland	5	25.2	2.8	11.0 %	0.2 %
Italy	1	45.0	20.5	45.6 %	2.0 %
Luxembourg	1	0.9	0.9	95.6 %	100.0 %
Malta	3	1.9	1.7	91.3 %	0.4 %
Netherlands	6	340.0	220.0	64.7 %	0.0 %
Portugal	2	21.0	12.1	57.4 %	0.0 %
Slovenia	2	14.5	14.5	100.0 %	60.0 %
Slovakia	6	22.4	22.4	100.0 %	0.0 %
Spain	3	209.0	137.5	65.8 %	0.0 %
<b>Euro area</b>	<b>72</b>	<b>2080</b>	<b>1760.5</b>	<b>84.6 %</b>	<b>1.5 %</b>
Bulgaria	3	6.5	6.5	100.0 %	0.0 %
Czech Republic	1	28.0	0.0	0.0 %	0.0 %
Denmark	<b>no reply received</b>				
Estonia	1	15.0	4.2	28.0 %	0.0 %
Hungary	4	100.0	98.9	98.9 %	0.0 %
Latvia	4	10.0	10.0	100.0 %	0.0 %
Lithuania	4	19.7	19.7	100.0 %	0.0 %
Poland	12	171.6	0.3	0.2 %	0.0 %
Romania	1	28.1	12.0	42.7 %	0.0 %
Sweden	4	78.0	78.0	100.0 %	0.0 %
United Kingdom	1	1056.0	3.5	0.3 %	0.0 %
<b>Non-euro area</b>	<b>35</b>	<b>1512.9</b>	<b>223.2</b>	<b>14.8 %</b>	<b>0.0 %</b>
<b>EU 27</b>	<b>107</b>	<b>3593.3</b>	<b>1983.7</b>	<b>55.2 %</b>	<b>1.4 %</b>

\* Estimate used from 1st survey.

\*\* Assumes that 15 % of all CT in MS are done by PA. Source of total number of credit transfers: ECB Blue Book 2007.

\*\*\* Weighted SCT rate rounded to 0.0 % even if individual PA have started using SCT but overall impact on SCT rate is marginal.

**Annex 2:** SDD adherence status as of 19 October 2009

<b>Member State</b>	<b>Number of banks adhering to core SDD scheme</b>	<b>Number of banks adhering to business-to-business SDD scheme</b>
Austria	686	547
Belgium	31	12
Cyprus	0	0
Finland	0	0
France	13	1
Germany	1269	1243
Greece	9	6
Ireland	5	2
Italy	451	432
Luxembourg	4	2
Malta	0	0
Netherlands	10	5
Portugal	1	1
Slovenia	0	0
Slovakia	0	0
Spain	6	6
<b>Euro area</b>	<b>2485</b>	<b>2257</b>
Bulgaria	1	1
Czech Republic	1	1
Denmark	97	97
Estonia	0	0
Hungary	1	1
Latvia	1	0
Lithuania	1	0
Poland	2	1
Romania	1	0
Sweden	2	1
United Kingdom	8	4
<b>Non-euro area</b>	<b>115</b>	<b>106</b>
<b>EU 27</b>	<b>2600</b>	<b>2363</b>

**Annex 3:** Direct Debit mandate model currently used in Member States

Member State	Direct debit mandate handling	
	Debtor Mandate Flow	Creditor Mandate Flow
Austria	x	x
Belgium	x	x
Cyprus	no national direct debit scheme	
Finland	x	
France	x	x
Germany		x
Greece	x	
Ireland		x
Italy	x	x
Luxembourg		x
Malta	x	
Netherlands		x
Portugal	x	x
Slovenia	x	
Slovakia	x	
Spain		x
Bulgaria	no national direct debit scheme	
Czech Republic	x	
Denmark	x	x
Estonia	x	x
Hungary	x	
Latvia	x	
Lithuania	x	
Poland	x	x
Romania	no national direct debit scheme	
Sweden	x	x
United Kingdom		x

#### Annex 4: Continued legal validity of existing direct debit mandates

Member State	Continued legal validity of existing direct debit mandates	Re-signing required
Austria	Banks would only have to inform their customers and change their general terms and conditions. Mandates will remain legally valid.	No
Belgium	Continued legal validity of existing DD mandates ensured through legislative changes during PSD transposition.	No
Cyprus	Continued legal validity of existing DD mandates ensured through legislative changes during PSD transposition. Banks would have to change their general terms and conditions and inform their customers about this.	No
Finland	No plans for migration to SDD scheme. Current national DD scheme to be replaced by e-invoicing. In case of customer demand for SDD, signing of new mandates will be necessary.	Yes
France	Continued legal validity of existing DD mandates ensured through legislative changes during PSD transposition.	No
Germany	Re-signing of mandates probably required. No legal solution ensured during the PSD transposition.	Yes
Greece	Banks would have to change their general terms and conditions and inform their customers about this. No legal solution needed.	No
Ireland	Continued legal validity of existing DD mandates ensured through legislative changes during PSD transposition. Banks would have to change their general terms and conditions and inform their customers about this.	No
Italy	Continued legal validity of existing DD mandates ensured through legislative changes during PSD transposition. Debtors will be informed about the migration to the SEPA direct debit scheme and can choose to terminate the contract.	No
Luxembourg	Banks would have to inform their customers about this. No legal solution needed.	No
Malta	Continued legal validity of existing DD mandates ensured through legislative changes during PSD transposition. Debtors will be informed about the migration to the SEPA direct debit scheme and can choose to terminate the contract.	No
Netherlands	No problem for existing direct debit scheme; mandates will remain legally valid	No
Portugal	Continued legal validity of existing DD mandates ensured through legislative changes during PSD transposition.	No
Slovenia	Banks would have to change their general terms and conditions and inform their customers about this. No legal solution needed.	No
Slovakia	Banks would have to change their general terms and conditions and inform their customers about this. No legal solution needed.	No
Spain	Continued legal validity of existing DD mandates ensured through legislative changes during PSD transposition.	No
Bulgaria	Continued legal validity of existing DD mandates ensured through legislative changes during PSD transposition.	No
Czech Republic	Constitutional problem. Re-signature of mandates required.	Yes
Denmark	Continued legal validity of existing DD mandates ensured through legislative changes during PSD transposition.	No
Estonia	No problem for existing direct debit schemes; mandates will remain legally valid.	No
Hungary	Re-signature of mandates required.	Yes
Latvia	No problem for existing direct debit schemes; mandates will remain legally valid.	No
Lithuania	No legal obstacles for continued legal validity of existing DD mandates.	No
Poland	Continued legal validity of existing DD mandates ensured through legislative changes during PSD transposition.	No
Romania	Re-signature of mandates not required.	No
Sweden	No problem for existing direct debit schemes; mandates will remain legally valid.	No
United Kingdom	National DD scheme is self-regulated and will continue without change.	No

**Annex 5: EMV compliance assessment in Q2 2009**

Member State	Debit Cards	Credit Cards	Total cards	POS	ATM
Austria	100.00%	100.00%	100.00%	54.00%	97.60%
Belgium	100.00%	100.00%	100.00%	96.00%	78.70%
Cyprus	80.00%	80.00%	80.00%	75.00%	65.00%
Finland	87.39%	87.39%	88.42%	44.69%	100.00%
France	100.00%	100.00%	100.00%	99.70%	100.00%
Germany	90.00%	30.00%	77.59%	5.00%	90.00%
Greece	13.00%	39.00%	23.40%	69.00%	94.00%
Ireland	99.90%	100.00%	99.95%	99.90%	100.00%
Italy	34.00%	89.00%	63.22%	83.00%	75.00%
Luxembourg	100.00%	100.00%	100.00%	100.00%	99.50%
Malta	0.00%	0.00%	0.00%	50.00%	53.00%
Netherlands	69.10%	93.00%	73.80%	34.50%	100.00%
Portugal	50.18%	50.18%	50.18%	84.93%	100.00%
Slovenia	95.20%	60.80%	87.89%	73.10%	77.00%
Slovakia	30.89%	7.90%	24.92%	91.21%	100.00%
Spain	11.67%	11.67%	11.67%	81.92%	95.98%
<b>Euro area</b>	<b>72.25%</b>	<b>66.94%</b>	<b>70.06%</b>	<b>73.33%</b>	<b>91.78%</b>
Bulgaria	1.90%	4.52%	2.26%	42.68%	93.21%
Czech Republic	86.05%	66.10%	83.14%	99.72%	99.61%
Denmark	100.00%	55.00%	92.11%	100.00%	100.00%
Estonia	96.73%	70.47%	89.76%	92.54%	100.00%
Hungary	34.00%	17.00%	30.87%	89.00%	77.00%
Latvia	88.85%	95.91%	91.45%	88.55%	52.21%
Lithuania	85.00%	54.00%	82.09%	45.00%	39.00%
Poland	0.05%	0.05%	0.05%	80.00%	44.00%
Romania	15.52%	7.91%	14.63%	70.46%	96.01%
Sweden	97.00%	45.00%	86.92%	33.68%	100.00%
United Kingdom	100.00%	100.00%	100.00%	100.00%	100.00%
<b>Non-euro area</b>	<b>70.21%</b>	<b>83.23%</b>	<b>75.36%</b>	<b>87.62%</b>	<b>96.94%</b>
<b>EU 27</b>	<b>71.61%</b>	<b>71.83%</b>	<b>71.70%</b>	<b>76.56%</b>	<b>93.14%</b>

>75–100%
>50–75%
>25–50%
0–25%

Source: These EMV country figures are based on the input provided by the EPC, complemented by the ECB Blue Book statistics of 2008.