

# Single Euro Payments Area

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2. 1 year of SEPA CT: facts, figures and feedback
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# SEPA: Recap of objectives



“SEPA will be the area where citizens, companies and other economic actors will be able to make and receive payments in Euro within Europe, whether between or within national boundaries under the same basic conditions, rights and obligations, regardless of their location.”

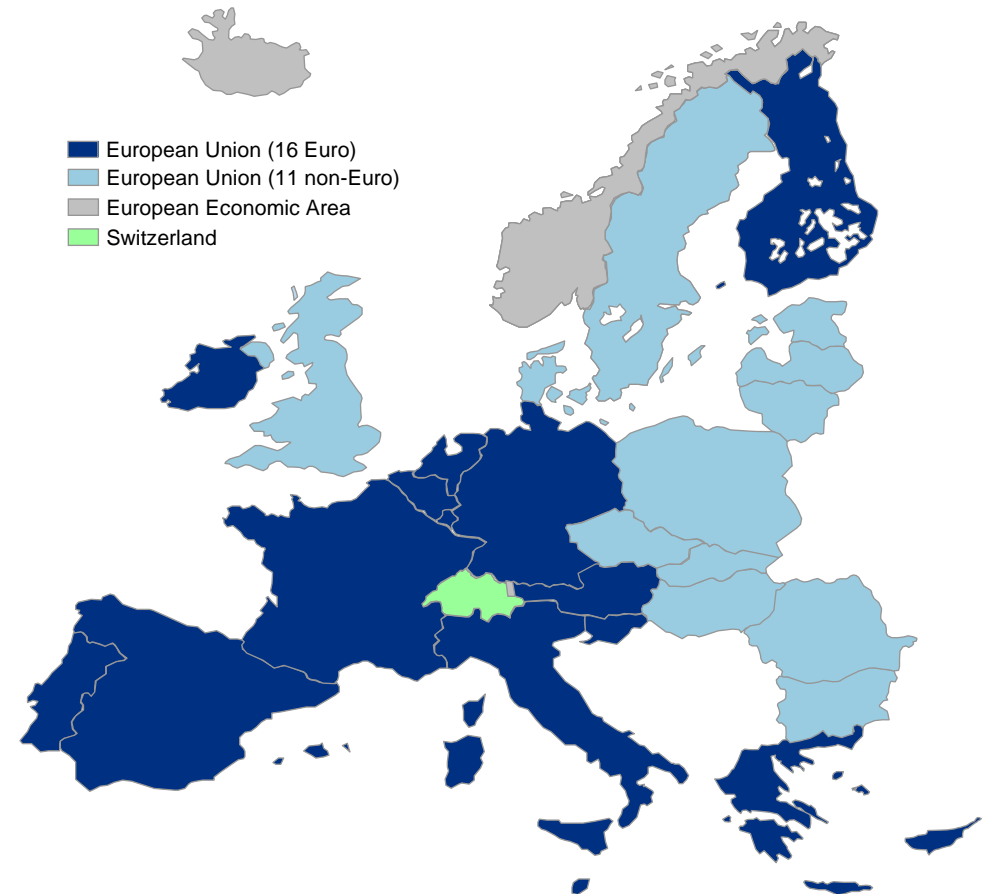
(European Payments Council)

- SEPA intends to be a new single market for **non-urgent, retail, “ACH” transactions**, created through:
  - Customers: New set of **regional payment standards** (*schemes*)
  - Banks: Pan-European **payment infrastructures** (*clearing houses*)
- Which will be supported by
  - A harmonised EU legal framework (Payment Services Directive, Regulation on Cross Border Payments)
  - Adoption of global standards like BIC and IBAN
  - New messaging standard (ISO20022 XML) for inter-bank communication
- Many of today’s national payment products will eventually be phased out
  - Reducing the number of euro payment products required by customers operating across Europe
- Goal:
  - Greater standardisation and efficiency for the European economy
  - Will enable some businesses to operate from a single Euro account
  - SEPA + EU legislation = improve consumer protection and foster more open competition in financial services

# SEPA: Recap of geographical scope

## Reengineering Euro payments across the European Economic Area & Switzerland

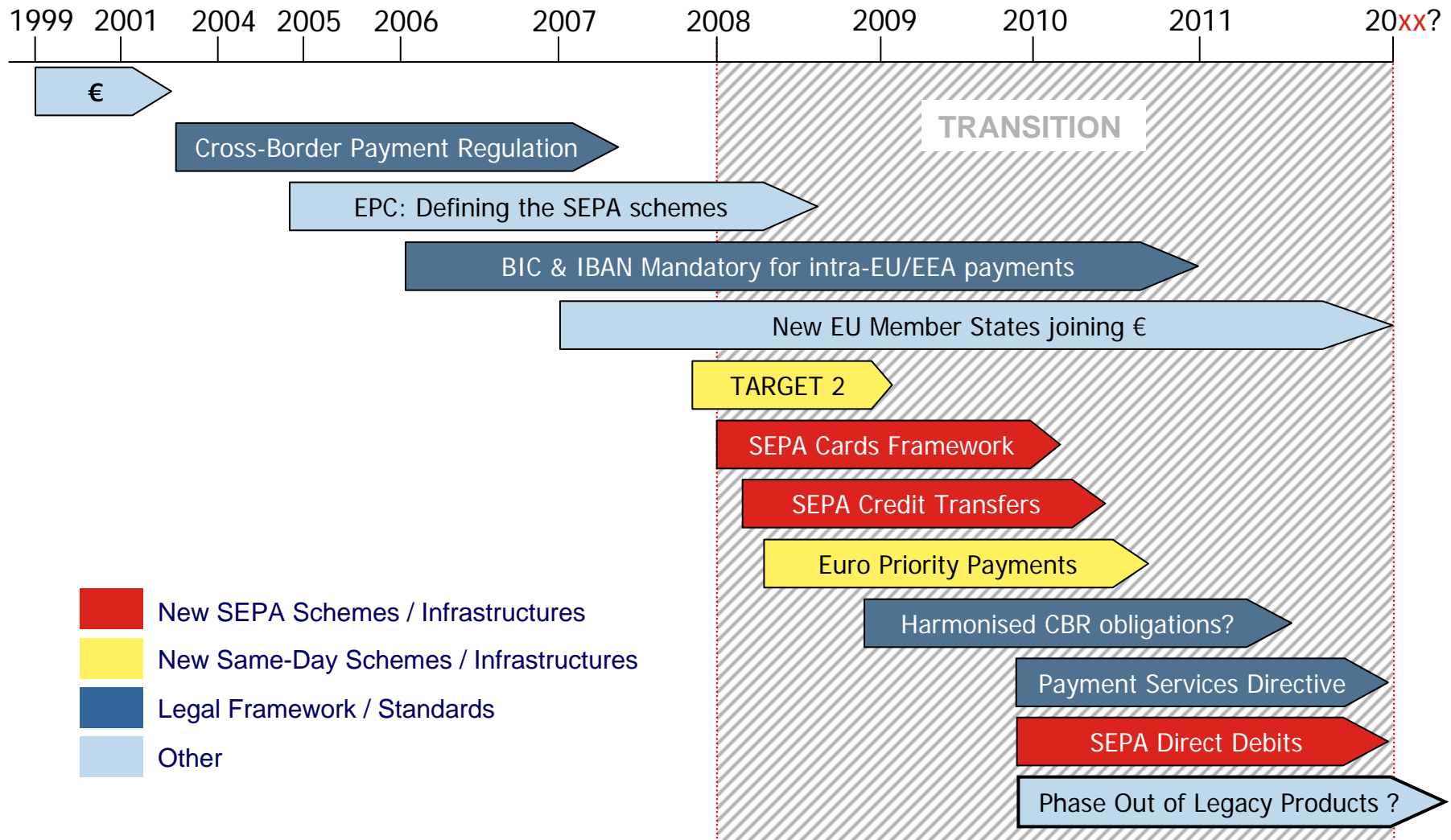
- The Single Euro Payments Area spans 31 countries:
  - 27 EU Member States
  - 3 additional EEA Member States
  - Switzerland
- SEPA will govern **Euro** payments only
  - Payments in other currencies are not impacted
- SEPA is for payments **within** this geographical area
  - Payments to/from Europe are not impacted
- SEPA will impact **domestic + cross-border** payments the new single market
  - No distinction between 'national' and cross-border payments within the 31 countries
- SEPA addresses non-urgent / retail / ACH payments
  - Urgent / same-day Wire Transfers remain as today



# Timeline of Market Initiatives



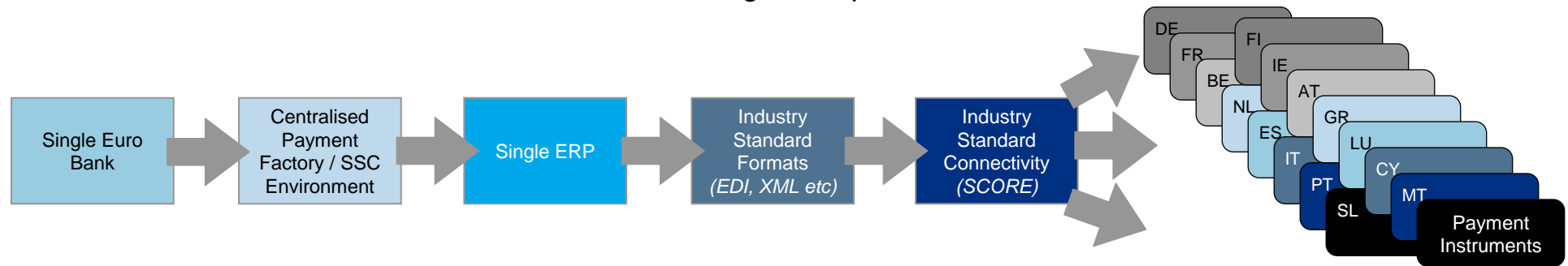
## SEPA: One key step in the broader initiative to create a more integrated Europe



# SEPA: How Will Corporates Benefit?

## Today's patchwork of national payment practices - one of the final challenges for Pan-European Cash Management

- Regardless of how standardised and centralised an organisation has become, inherent market differences still act as a barrier to an efficient, standardised Cash Management process



## Benefits of SEPA

- Creates standardisation through the adoption of a single set of consistent pan-European payment instruments
- Eliminates the need to consider national payment practices, rules, information requirements etc.
- Facilitates greater centralisation – distributed banking model can become more simplified and optimised
- Alignment with existing efficiency initiatives to improve straight-through processing, reduce cost and maximise working capital
- Protection through increased regulation, transparency and competition amongst banks
- Creates a common platform on which to build the payment services of the future

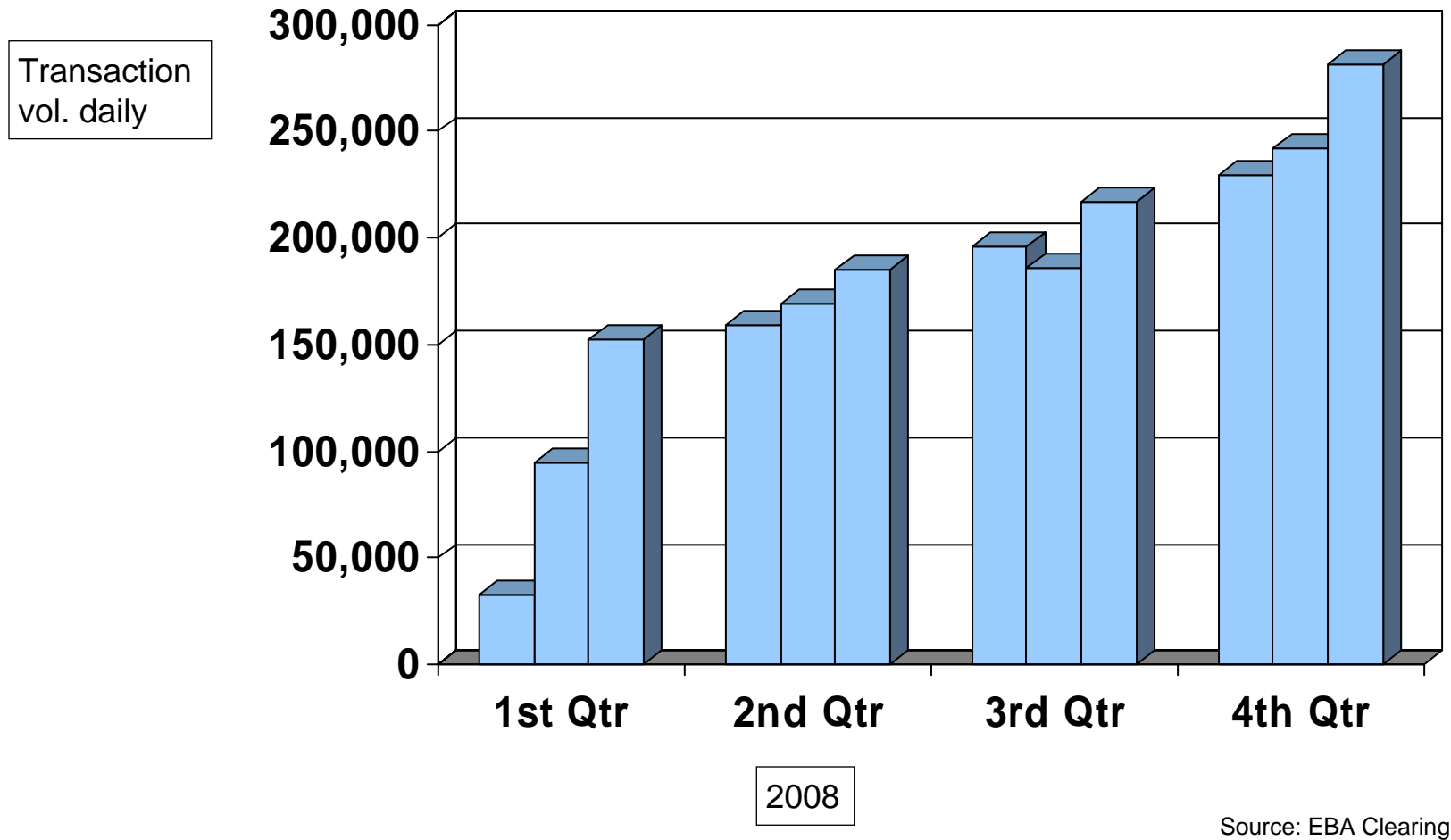
# 1 year of SEPA CT: facts, figures and feedback



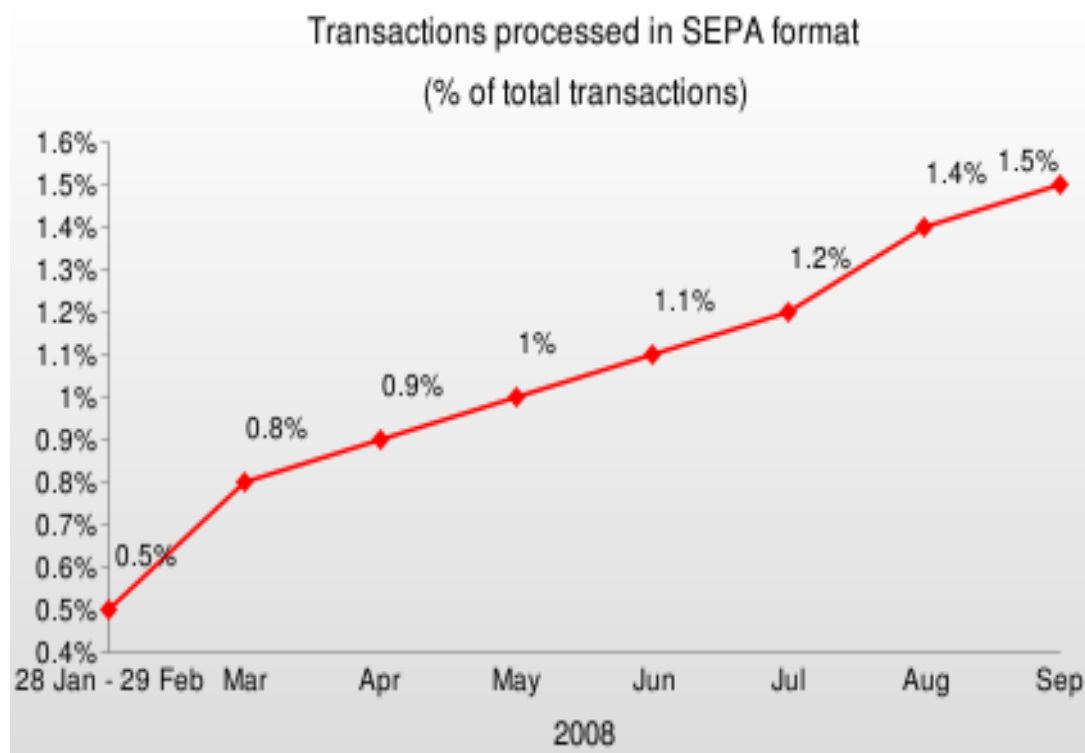
## First experiences of the SEPA Credit Transfer Service

- So far **4388** banks signed up to the SEPA Credit Transfer scheme
  - Over 25,000 European SWIFT codes are covered
- An estimated **80-85%** of the banking sector is connected to SEPA Credit Transfer
  - Representing an estimated **95%** of payment banks
- Since the inception of SEPA CT the payment traffic on the EBA legacy STEP 2 XCT channel has halved, with those transactions migrating to the SEPA channel.
  - In December 08 SEPA transactions via the EBA channels have amounted to 281,578 in daily vol, with a daily average value of 1.76 bio. EUR
- Many users have been sending higher-value transactions through SEPA Credit Transfer
  - No longer the traditional split between high- and low-value transactions
  - Many transactions > **€1million**, at least one > **€100million!**
- Considerable interest in non-Euro countries, taking advantage of cheaper Euro payments for the first time – no ACH access previously
- Volumes continue to grow as more banks ramp up volume and customers start to migrate flows

# EBA SCT Average Daily Vol. of Transactions 2008



# SEPA CT statistics 2008 on aggregate



Above figures are based on aggregated data from the following clearing and settlement infrastructures/systems located in the euro area: CEC, RPS, Dias, Iberpay, SIT/CORE, BI-COMP, JCCTransfer, Equens, Step.at, SIBS, Bankart, GiroClearing and STEP2.

Source: European Central Bank

# Client SCT experience



Issue	Possible Response
<p><b>Reachability</b></p>	<p>Practical problem in case banks are non-reachable:</p> <p>Re-routing of the payment via Euro 1 or TARGET2 triggers deductions at the beneficiary side. Local ACH capability needs to be maintained for the interim period.</p> <p>Solution: From 1<sup>st</sup> November 2009, no deductions can be applied by the beneficiary bank unless agreed with the beneficiary.</p>
<p><b>Execution Time Cycle</b></p>	<p>SEPA is a non-time-cycle-critical payment scheme. Maximum execution cycles will be reduced over the next few years in the following way:</p> <p>D+2 max. execution time from 1/1/09</p> <p>D+1 max. execution time from 1/1/12 (at the latest)</p>
<p><b>Payroll in SEPA</b></p>	<p>Although most SEPA CTs are executed in a D+1 timeframe, there is no guarantee of this execution time cycle until January 2012.</p> <p>Recommendation: Retain national ACH products for payroll or other time-cycle-critical payments.</p>
<p><b>Account Centralisation</b></p>	<p>Consolidation of accounts payable into one location is being explored by a number of centralised clients. CBR implications have to be considered.</p>
<p><b>Central Bank Reporting</b></p>	<p>CBR has not been abolished with the arrival of SEPA. Plan to legally end with CBR by 2012. Decision in February 09. Do not migrate volumes in countries where CBR required within payment instruction (example: Spain).</p>

# Citi recommendations on SEPA CT – still valid



## SEPA may not immediately suit all payment flows in all circumstances

Payment Category	Opportunity	Benefits of SEPA	Considerations
Cross-Border Payments	<b>High</b> Immediate benefits	<ul style="list-style-type: none"> <li>Move from expensive same-day payment to cheaper non-urgent SEPA Credit Transfer</li> <li>With SEPA - bring cross-border payments into same process flow as domestic payments</li> <li>Standardise the format/country rules across all non-urgent EUR payments</li> </ul>	<ul style="list-style-type: none"> <li>What proportion of payments are urgent vs. non-urgent?</li> <li>Must some payments remain as same-day / treasury transactions</li> <li>Central Bank Reporting will continue to be an issue, and will not be supported in SEPA for those countries where required</li> </ul>
Domestic Vendor Payments	<b>Medium</b> Some benefits – consider migrating flows and continue to monitor	<ul style="list-style-type: none"> <li>Standardise vendor payment processes across all euro markets</li> <li>Simpler to set-up, maintain and develop than multiple national formats</li> <li>Move to 100% IBAN usage</li> <li>No requirement to rationalise account structure</li> <li>Aligns with 'single bank' or SSC project</li> </ul>	<ul style="list-style-type: none"> <li>Flexible cycle time (D+3 max) in Nov 09 D+3 max execution times, from 01/2012 D+1</li> <li>Central Bank Reporting will continue to be an issue, and will not be supported in SEPA for those countries where required</li> <li>All banks may not participate – payments rejected or re-routed (depending on bank) until universal coverage is achieved; key issue for SDD</li> </ul>
"Time-cycle-critical" Payments	<b>Low</b> Limited immediate benefit – revisit by 2010	<ul style="list-style-type: none"> <li>Longer term opportunity to standardise processes</li> <li>SEPA is a core payment type only, no additional features yet – e.g. specific payroll or tax capabilities</li> <li>Most of these processes are managed locally, creating less opportunity for standardisation</li> </ul>	<ul style="list-style-type: none"> <li>From Jan 2012 at the latest D+1 max. execution time; currently D+3 and from Nov 09 D+2</li> <li>Difficulty in migrating time-sensitive payments (e.g. payroll)</li> <li>All banks may not participate – payments rejected or re-routed (depending on bank) until universal coverage is achieved – timing uncertainty</li> </ul>
Incoming Payments	<b>Medium</b> Some benefits – but difficult to influence	<ul style="list-style-type: none"> <li>Longer term opportunity to standardise processes</li> <li>Improve reconciliation based around a single statement type and data fields</li> <li>Collect all receivables into a single / simpler set of accounts</li> </ul>	<ul style="list-style-type: none"> <li>Difficulty in influencing clients to change behaviour</li> <li>Limited opportunity to reengineer Receivables until SEPA Direct Debits in place</li> <li>Central Bank Reporting requirements may lead customers to remain with national payment types and resist paying "cross-border"</li> </ul>

## The SEPA Credit Transfers has additional features

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- **SEPA Credit Transfer scheme upgrade:** Rulebook version 3.2 will be launched in February 2009
  - The addition of specific fields for ultimate originators and beneficiaries will support the functionality of 'on-behalf-of' payments, allowing for another category of payments to be embedded in the SEPA flow
  - Specific codes that capture the purpose of a payment, e.g. Salary payment, vendor bill payment, will add to client's ability of reconciliation
  - Nevertheless, the introduction of purpose codes will not have any impact on cycle times or value dating certainty.  
-> payroll will still be a challenge under SEPA
- **For the full benefit of the enhanced SEPA CT scheme clients should consider moving to XML**

# SEPA Direct Debits on the horizon

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## The first-ever pan-European Euro Direct Debit

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### **Core Direct Debit** Rulebook version 3.1 for launch in November 2009

- Facilitating direct debits in euro from any participating bank in SEPA
- Collections in euro from debtor accounts across 31 countries
- Mandatory use of BIC and IBAN for debtor bank/account
- Standardised approach to payment information supporting creditor, debtor, mandate details
- Mandatory use of ISO20022 XML by banks and clearing houses as the inter-bank clearing standard
- Electronic mandate flows and storage (approval of e-mandate model in 03/09)

### **SEPA Business to Business Direct Debit** Rulebook version 1.1 for launch in November 2009

- Differentiator: scheme participants are required to be businesses and no refund rules for authorised transactions are applied (need to ensure PSD opt-out with business clients in order to offer this scheme)

***The arrival of SEPA Direct Debits will allow clients to fully integrate SEPA processes on an end-to-end basis. This will bring flexibility and the opportunity to move into a more centralised structure, allowing for account rationalisation and efficiency optimisation.***

# Current challenges with SEPA Direct Debits



**Successful take-up of SEPA DDs will require creditors to be confident there is sufficient debtor reach and no barrier to mandate migration...**

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## **Reachability under SEPA Direct Debits**

- No clarity yet as to whether all banks that signed up for SEPA CT will also offer SEPA Direct Debits
- As a minimum, it is essential that all SEPA CT banks join the Core SDD scheme as debtor banks
- Current uncertainty around Multilateral Balancing Fees is triggering some communities to delay their readiness for SEPA Direct Debits (e.g. Portugal)
- No possibility to re-route payments due to lack of legacy channel

## **Mandate Migration under SEPA Direct Debits**

- Practical challenge of ensuring legal validity of legacy Euro DD mandates under SEPA
- Most countries either have no legal barrier to ensuring ongoing validity, or will implement an enabling provision in their domestic PSD implementations
- Current positions at country level range from:
  - No issues foreseen (e.g. Belgium, Portugal)
  - Legislative solution required and being actively progressed (e.g. Ireland, Italy)
  - Legislative solution required but discussions still underway (e.g. Germany, Luxembourg)
  - Contractual solutions being pursued (Netherlands, Norway)

## SEPA will get an additional push via the PSD

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- Comprehensive EU legislation of payment services in the EEA coming into force on 1.11.2009
- The PSD was initially developed to support SEPA.
- However, the final legislation applies to payment transactions in euro and all other Member State currencies within the Single Market, where those are provided by payment service providers located in this Community.
  
- **What does the PSD mean for SEPA?**
  - Enabler of SEPA Direct Debits via harmonised refund rules
  - Support of STP through establishing unique identifier supremacy
  - Harmonised legal protection of consumer and corporate users -> accelerate usage of pan-European products
  - Additional competition and increased choice by introducing new non-bank payment institutions
  - CBR requirements not lifted by the PSD; ongoing negotiation in review of cross-border pricing regulation (2560) to lift CBR by Jan. 2012

## SEPA migration focus on the 16 Euro zone countries

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- SEPA migration has to be seen in two phases: credit transfers vs. direct debits

**PHASE I SEPA credit transfer migration:** SCT has the potential to mature in the next 2 years to replace domestic schemes

- Focus on the Euro zone 16 countries – examples of migration situation:
  - Belgium and Finland intend to disband domestic CT scheme in 2010
  - Spain envisages SEPA CT critical mass by 2010
  - France scheduled for full SEPA CT migration by 2011

### **PHASE II SEPA direct debit migration**

- Introduction of SEPA direct debits already delayed by almost 2 years
- Details on migration can only be specified once the scheme has been successfully launched and mandate migration challenge is overcome

## SEPA: Here and Now...but still in evolution.

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- After one year of SEPA credit transfers many issues are still unresolved
- The PSD will solve some of the currently observed barriers from Nov 09
- SEPA may not suit all payment types in all circumstances
- However, other challenges such as Central Bank Reporting or guaranteed cycle times will only be solved over the next three years
- Citi is strongly lobbying for the abolishment of CBR requirements by 2012 at the latest, via the revision of European Regulation 2560.
- Clients must evaluate the impact of SEPA on their payment activities and plan for adoption
- In order to reap the full benefits of harmonisation, Citi is strongly engaged in supporting SEPA migration at EU level and would welcome a clear timetable for Euro zone SEPA migration from the EU Commission and ECB
- The planned launch of SEPA direct debits in Nov 09 is currently still dependent on key issues being clarified or resolved
- Monitoring of country readiness for SEPA direct debits as well as mandate migration solutions is key

# Questions & Answers

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