Roadmap for the Single Euro Payments Area

Status and progress

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Chair - European Payments Council

Seminar Payment System: Standardisation and Regulation
Moscow, 27 June 2011

Agenda

- Expectations European Public Authorities
- EPC commitment and deliverables
- EPC cooperation model and communication
- Conclusions

SEPA vision ECB and EC

*

- **Vision**: “An euro area in which **all payments are domestic**, where the current differentiation between national and cross-border payments no longer exists”

- **Expected deliverables** for the Euro area (EU17):
  - **SEPA credit transfer and SEPA direct debit**
  - **Additional European Card Scheme**
  - **E-Payments and m-Payments**

**

- **Objectives Payment Services Directive**
  - The EU **needs to create a single market for payments**

- **Benefits for users and providers**
  - **Enhanced competition** by opening markets
  - **Encouraging innovation**
  - Increased **market transparency**
  - Ensuring a **level playing field**

* 7th Progress Report 2010 and ** PSD 2008

European Parliament Resolutions 12 March 2009 and 10 March 2010

"Emphasises its **continued support for the creation of SEPA**, which is subject to effective competition and in which there is no distinction between cross-border and national payments in euro;

- **Calls 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, after which all payments in euro must be made using the SEPA standards;

- Calls on Member States to **encourage their public administrations to use SEPA instruments** as soon as possible and to give them a catalytic role in the migration process;

- Calls on the Commission to ensure that the **migration** to SEPA instruments **will not result in a more expensive payment system for citizens** of the Union;"

ECOFIN Council
2 December 2009

1 **REITERATES the importance of** and its support for **the full realisation of the Single Euro Payments Area (SEPA),** which aims at achieving an integrated and competitive internal market for euro payments for the benefit of citizens and businesses and in this regard WELCOMES the Communication from the Commission: "Completing SEPA: a Roadmap for 2009-2012" .....

2 **WELCOMES the substantial progress achieved** by industry with the successful launch of the SEPA Direct Debit (SDD) following the earlier launch of the SEPA Credit Transfer (SCT);

5 **CALLS upon industry to complete its work in relation to the outstanding technical standards required in the cards market by mid 2010, …….**

9 CALLS upon public authorities in all Member States to significantly step up, ……. their migration efforts and lead SEPA migration by example;

SEPA Roadmap*

COMMISSION OF THE EUROPEAN COMMUNITIES

- 1. **Foster migration**
- 2. **Increase SEPA awareness** and promote SEPA products
- 3. Ensure a **sound legal environment** and strengthen SEPA compliance
- 4. Promote **innovation**
- 5. **Ensure** necessary **standardisation**, interoperability and security
- 6. Clarify and improve **SEPA governance: SEPA Council**

* European Commission, 10 September 2009 and ECOFIN 2 December 2009

Governance cooperation: SEPA Council

Representatives of suppliers

Representatives of the public sector

Representatives of buyers

EUROPEAN CENTRAL BANK

COMMISSION OF THE EUROPEAN COMMUNITIES

European Banking Federation

European Association of Co-operative Banks
Groupement Européen des Banques Coopératives
Europäische Vereinigung der Genossenschaftsbanken

ESBG

European Payments Council

Objectives:

- Promote Realisation SEPA Vision
- Monitor and support migration process
- Promote product innovation to meet the needs of end-users

beuc

EuroCommerce
THE RETAIL, WHOLESALE AND INTERNATIONAL TRADE REPRESENTATION TO THE EU

EUROPEAN ASSOCIATION OF CORPORATE TREASURERS

BUSINESSEUROPE

UEAPME

FSC: public administration

SEPA Council Declaration*: **end date(s) supported for migration to SCT and SDD**

- This Declaration includes **support** of the **supply side** (banks), **buy side** (customers of payment services) and of the **public sector** (ECB and European Commission)

* SEPA Council Declaration: 7 June 2010

Proposal Regulation for an end date

COMMISSION OF THE
EUROPEAN COMMUNITIES

- European Parliament asked the European Commission **to set a clear and appropriate binding end date which should not be later that 31 December 2012**
- The European Commission published on 16 December 2010 a proposal
- The European Commission's proposal is currently reviewed by the
  - Council (Hungarian Presidency)
  - European Parliament (ECON Committee)
- The **proposed end dates** are
  - SCT 1 February 2013
  - SDD 1 February 2014

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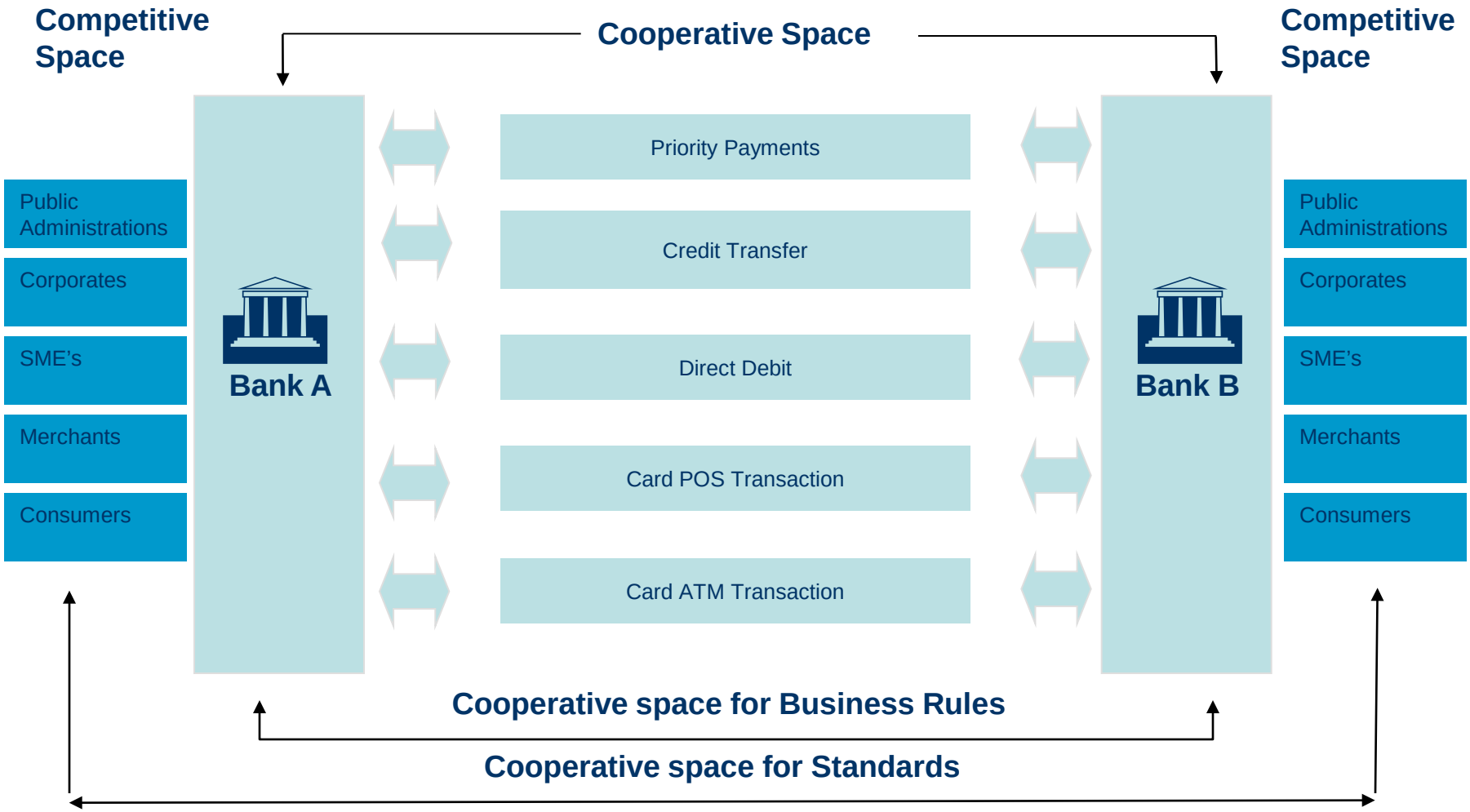
Competitive and cooperative space in SEPA (two side market)



EPC Declaration 17th March 2005

- We will deliver the **two new Pan-Euro Payment Schemes** for electronic **credit transfer** and for **direct debits**. We will also design a **Cards Framework** to define a single market for cards. The scheme rulebooks and the cards framework definition will be delivered by end 2005, and the services will be operational by January 2008.

- We know from feedback from our community in the eurozone that by the **beginning of 2008** the vast majority of **banks will offer these new Pan-Euro services to their customers**.

- We are also convinced that **a critical mass of transactions will naturally migrate** to these payment instruments **by 2010** such that SEPA will be irreversible through the operation of **market forces** and **network effects**.

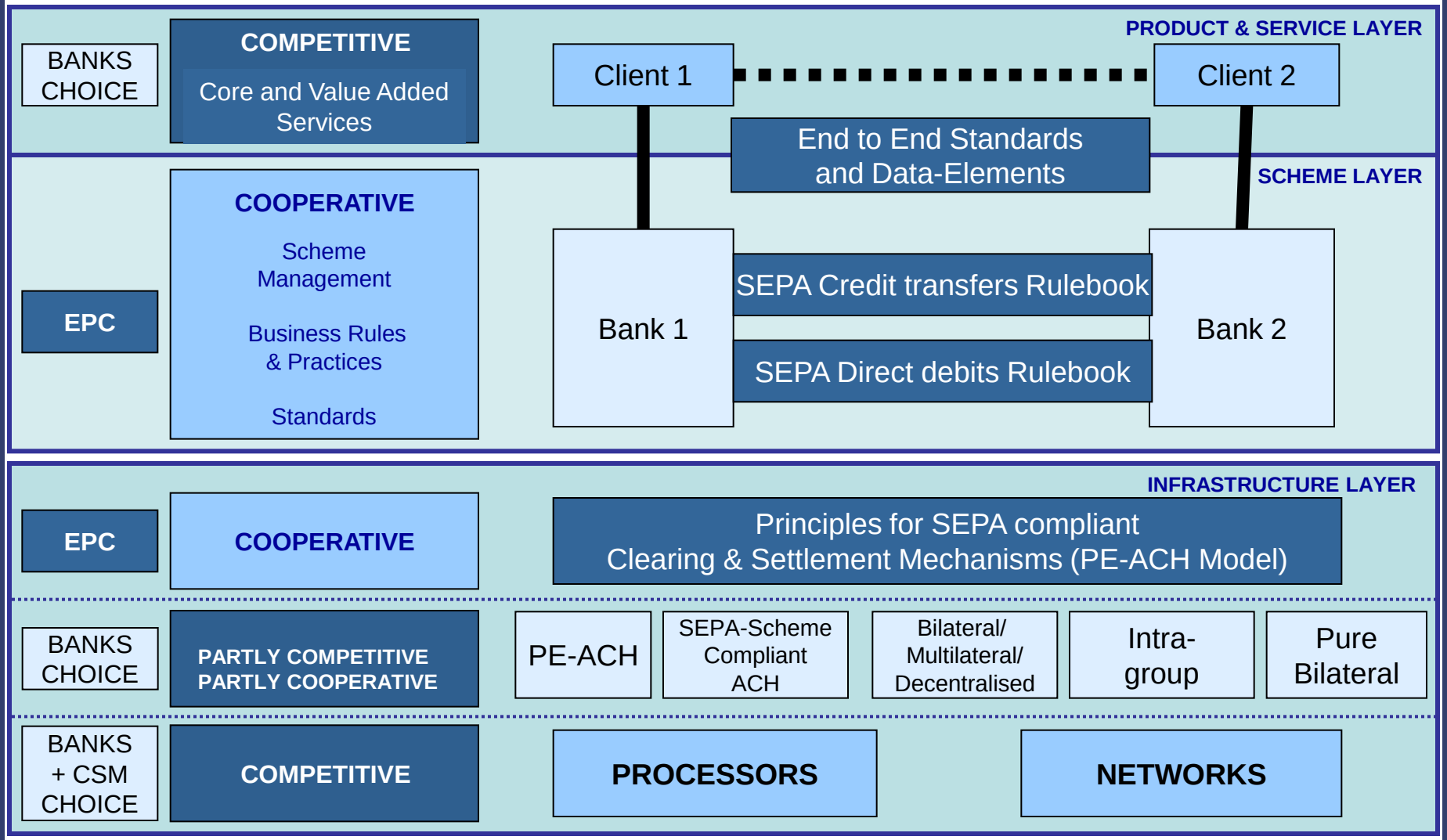
- **SEPA will be delivered by the banking industry in close conjunction with all stakeholder communities** (consumers, SMEs, merchants, corporates and government bodies) **and** supportive **public authorities**.

- The community of European banks is strongly committed to this ambitious programme of action, based on **self-regulation** and a full recognition of the role of market forces and competition.

SEPA Credit Transfer & SEPA Direct Debit

- **Three layer structure: competition and/or cooperation**
  - **Payment services layer** to customers by banks (**competition**)
  - **Scheme layer**: rules and standards for SCT and SDD (**cooperation**)
  - **Processing layer** inclusive clearing and settlement (**competition**)
- **Rulebooks and Implementation Guidelines**
  - **Rulebook** = master agreement for scheme participants
  - **Implementation Guidelines** = MIG (Message Implementation Guideline) based on ISO 20022 and ISO Identifier Standards (BIC ISO 9362 and IBAN ISO 13616)
- **Design:** November 2010 releases
  - **SCT version 4.0** (approved November 2009)
  - **SDD version 4.0** (approved November 2009)
  - **SDD B2B version 2.0** (approved November 2009)

PE-ACH/CSM Framework



SEPA Credit Transfer & SEPA Direct Debit

- **Scheme Management Committee** (with an independent Chair) approves Scheme Participants
- **SCT Implementation**
  - So far over **4491 SEPA Credit Transfer Scheme Participants**
  - So far **nearly 14.7%** of the euro credit transfers have been migrated to SCT
- **SDD Implementation**
  - So far **3912 SDD core and 3384 SDD B2B Scheme Participants**
  - So far **about 1%** of the euro direct debit transfers have been migrated to SDD
- **PE-ACH/CSM**
  - CSM's signed a **disclosure letter** that they are SCT and SDD compliant

Customer Stakeholder Forum

- Objective
  - inclusion representatives of customers
  - alignment on functionalities of SCT and SDD schemes and Implementation Guidelines
  - CSF is not a forum inside the EPC, but a forum of the buy-side and the supply-side for the EPC Scheme Management
- Co-chaired
  - Chair End User Committee
  - Chair EPC
- Participants EUC
  - Corporates : EACT, Business Europe, FAEP, CEA
  - Retailers : Eurocommerce
  - SME's : UAPME
  - Consumers : BEUC
  - Public Administrations : None
- EPC Scheme Management
  - Chair, Vice-chair SPS (and some members), Chair SSG, EPC Secretary General
- Observers
  - ECB and European Commission

SEPA for Cards

- The EPC has **no** policy or mandate to create an **additional European Card Scheme**
- The EPC created the **SEPA Cards Framework***
  - **enable European customers** to use general purpose cards **to make payments and cash withdrawals in euro** throughout the SEPA area with **the same ease and convenience** than they do in their home country,
  - **no differences** whether they use their card(s) in their home country or somewhere else within SEPA,

* SEPA Cards Framework: approved June 2006

SEPA for Cards Framework: principles and standards

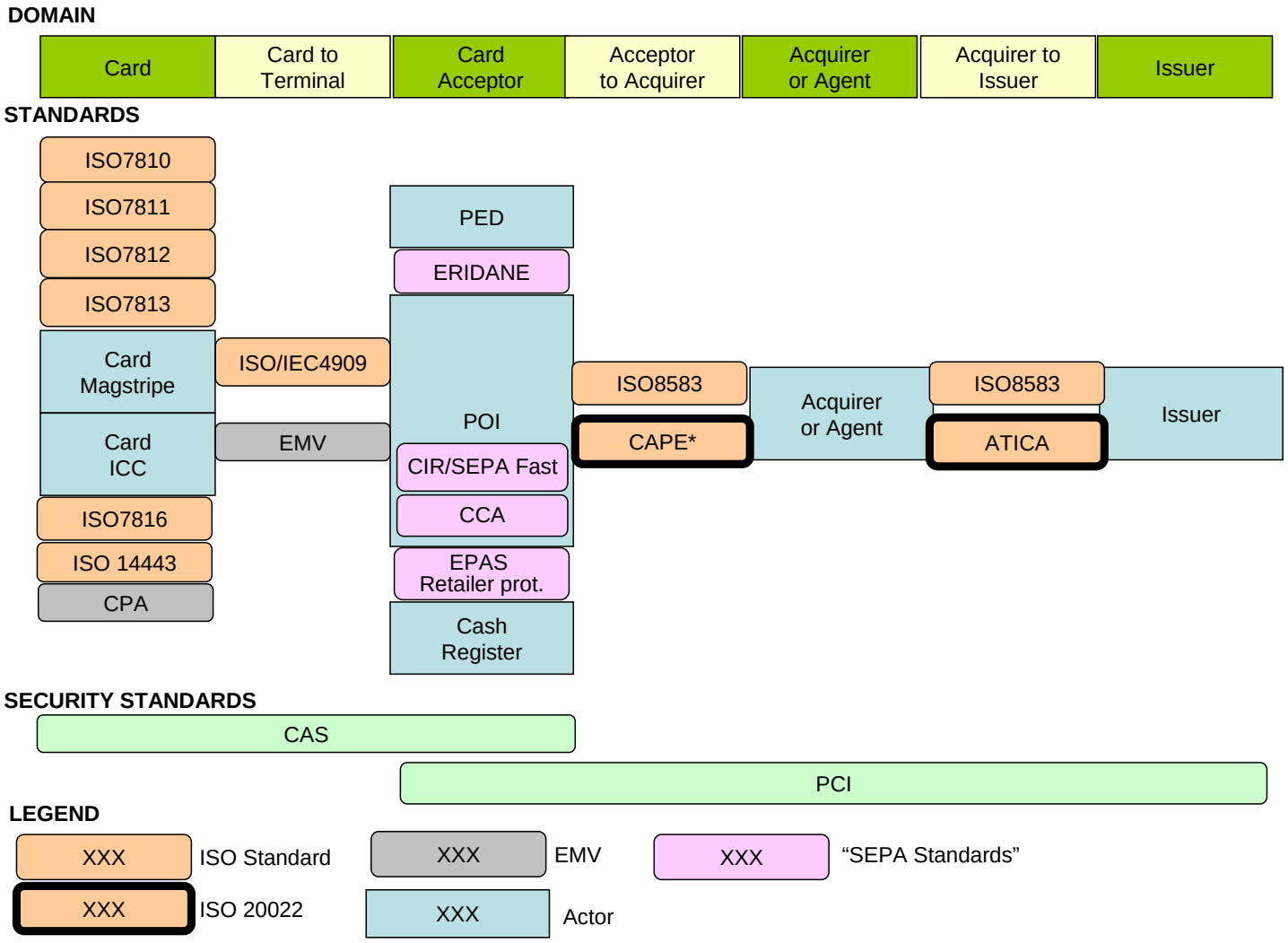
- **SEPA Cards Framework** (version 2.1 December 2009)
  - Provides a single framework for the **payment function of cards** for
    - **Banks**
    - **Card schemes**
    - **Service providers**
  - SCF Version 2.2 planned before end 2011
- **SEPA Cards Standardisation Volume: Book of Requirements** (version 5.0 approved December 2010)

Book of Requirements: standards

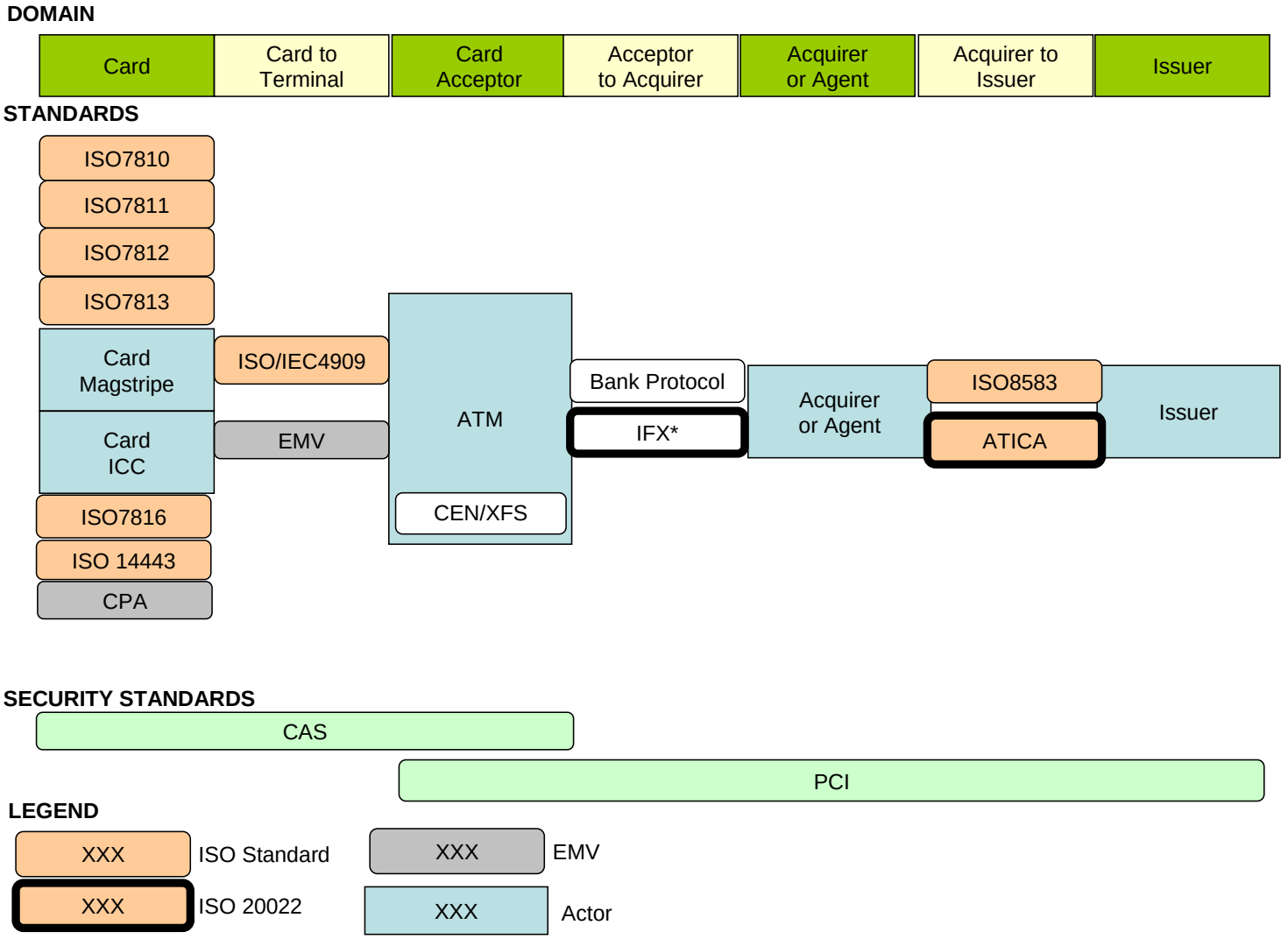
- **SEPA for Cards objective requires more standardisation (SCF 3.6.3)**
- **BoR: requirements for card standardisation, security and certification**
  - **Functional requirements** (BoR chapters 1 - 4)
  - **Security requirements** (BoR chapter 5)
  - **Certification: creation of Certification Management Body** (BoR chapter 6)

- Focus to adopt **open global standards**
- **Cooperation and alignment with partners**: EMV, PCI, ISO

Overview of Standards in the Cards Value Chain: POS transaction



Overview of Standards in the Cards Value Chain: ATM transaction



Overview Standards

- ISO4217 – Currency Codes
- ISO7810 – Identification cards — Physical characteristics
- ISO7811 – Identification cards — Recording technique
- ISO7812 – Identification cards — Identification of issuers (IIN, BIN, PAN)
- ISO7813 – Identification cards — Financial transaction cards
- ISO7816 – Identification cards — Integrated circuit cards
- ISO7 14443 – Identification cards — Contactless Integrated circuit cards
- ISO/IEC4909 – Magnetic stripe data content
- ISO8583 - Financial transaction card originated messages — Interchange message specifications
- ISO20022 – Financial Services — universal financial industry message scheme
- ICC – Integrated Circuit Card
- EMV – Europay MasterCard Visa
- CIR/SEPA Fast (Common Implementation Recommendations/ SEPA Financial Application Specification for SCF Compliant EMV Terminals)
- CAS – Common Approval Scheme
- CCD – Common Core Definitions
- CPA – Common Payment Application
- PED – PIN Entry Device
- ERIDANE
- POI – Point of Interaction
- EPAS (Electronic Protocol Application Software)
- PCI – Payment Card Industry
- PCI DSS – PCI Data Storage Security
- PCI PED – PCI PIN Entry Device
- CAPE – Card Payment Exchanges (ISO20022), EPAS Acquirer and TMS protocols
- CCPAY – Card Clearing Payment Messages (ISO20022 change request)
- ATICA – Acquirer to Issuer Card Messages
- CCA – Common Contactless Application
- IFX – Interactive Financial eXchange
- CEN/XFS – Extensions for Financial Services

Cards Stakeholders Group

- Objective
  - Combine the efforts of **all** stakeholders for the **"SEPA for Cards" objective**
- Co-chaired
  - Chair retailers team
    Chair EPC Cards WG
- Participants
  - Representatives with technical expertise from the different stakeholders in the cards value chain
  - Five representatives of five groups of stakeholders:
    banks
    retailers
    scheme owners
    vendors
    operators
- Observers:
  - ECB and European Commission

m-Payment channel

- **M-Payment Channel**: Way forward (approved December 2007)
  - Use of a **mobile to initiate a payment**
    - Mobile **Contactless Payment** (SEPA-card based)
    - Mobile **Remote Payments** (SEPA-card or SEPA-Credit Transfer based)
  - **Framework with requirements**, standards and best practice (including security)
- **Not mandatory** but optional for all banks
- GSMA and European Payment Council announced a **co-operation agreement** (30th June 2008)
- **EPC M-Channel Roadmap** (approved March 2009 and updated September 2010)
- **White Paper on Mobile Payments**: cases, service description, business requirements (approved June 2010)
- EPC-GSMA: **Mobile Contactless Payments Service Management Roles**: Requirements and Specifications (approved)
- **Mobile Contactless SEPA Cards Payments Interoperability Implementation Guidelines** (approved for consultation March 2011)

Cash

- **Facts**
  - **Cash is King!**
  - At least **6 out of 7 payment transactions** are cash payment transactions

- **EPC two pillar strategy** (approved June 2004)
  - **Efficiency Agenda** (applicable for the euro currencies)
    - **Single Euro Cash Area Framework** (version 2.1 in March 2006)

  - **Repositioning Agenda** (applicable for all 1 + 10 = 11 currencies of the EU27)
    - "Best practices for discouraging the use of cash and promoting alternative means of payments"

- **Eurosystem Roadmap for Cash Services**
  - **6 convergence measures** (packaging standards, electronic data exchange standards, etc.)

- **Standardisation of ATM cassettes** (together with ATMIA: ATM Industry Association)

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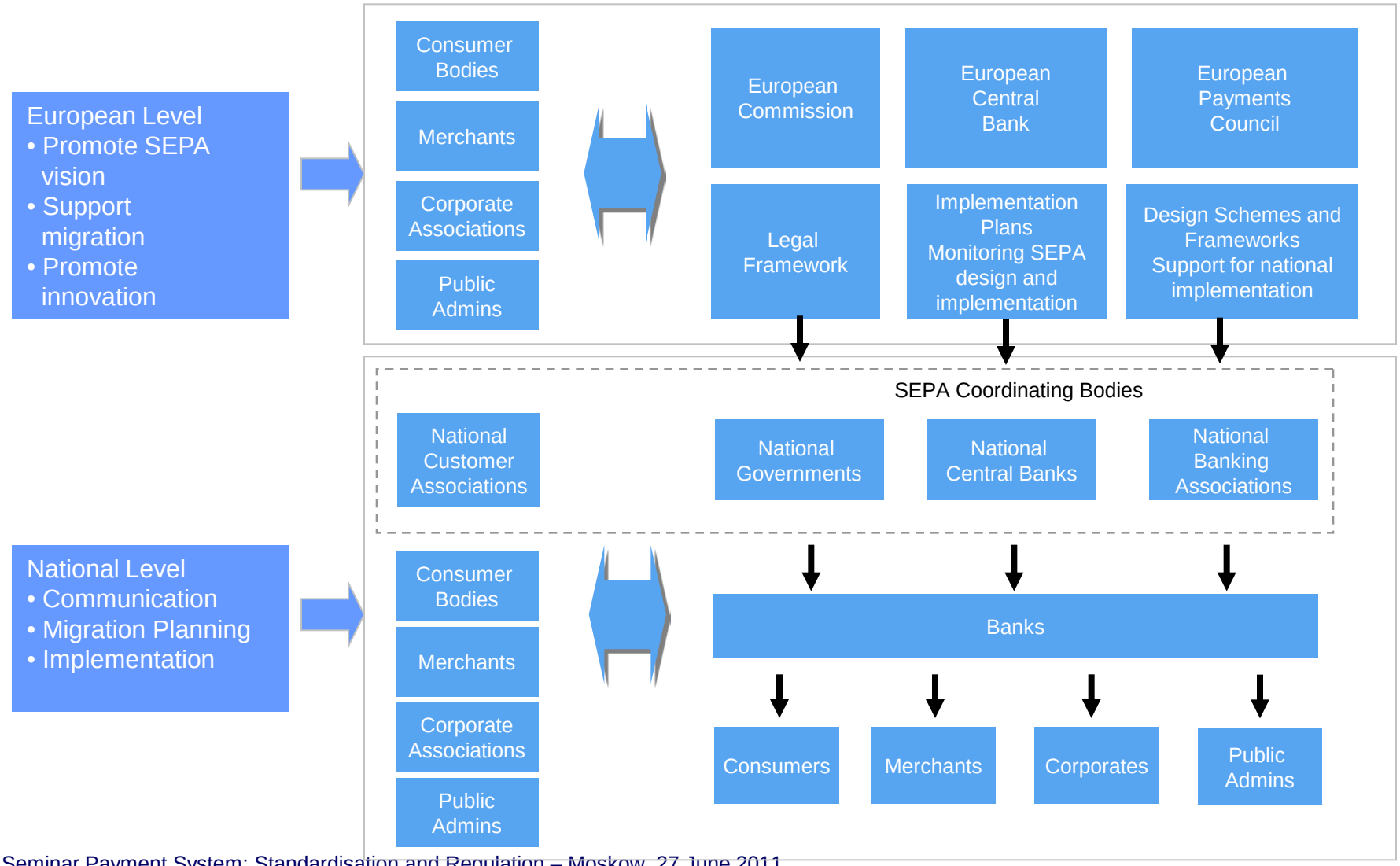
EPC Governance Framework

- The EPC Plenary has **74 members** with the **major players** of the payments industry and with a **fair representation** of the **smaller players** (represented by banks or associations)

- **More than 4400 banks from 17 Euro countries and 14 non-euro countries in Europe are represented in the EPC Plenary**

SEPA Cooperation model

COORDINATION CHALLENGE: STAKEHOLDERS ARE EUROPEAN AND/OR NATIONAL



EPC Organigram 2011

*** Alignment with other stakeholders**
**** Decision-making bodies**
***** Strategy and process body**

EPC Communications

- **Shortcut flyers**
  - Shortcut to SEPA
  - Shortcut to the SCT Scheme
  - Shortcut to the SDD Schemes
  - Shortcut to SEPA Data Format
  - Who is Who in SEPA
- **General SEPA information**
  - The most popular Misunderstandings about SEPA – Clarified
  - Making SEPA a Reality – the definitive Guide to SEPA
- **The EPC Newsletter**. Four issues per year delivered to your inbox. Subscription is free.

- **Targeted brochures**
  - SEPA for Business
  - SEPA for Consumers (A convenient and secure way to make payments)
  - SEPA for IT Providers
  - SEPA for the Media
  - SEPA for the Public Sector
- **Targeted flyers**
  - Public Sector – 10 best reasons to practice SEPA
  - Business – 10 best reasons to practice SEPA

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Conclusions

- **SEPA will create a single market for euro payments and enhance competition** as asked for by the ECOFIN, the Governing Council of the ECB and the European Parliament

- SEPA is created via **co-regulation**
  - for **legislation** by the public authorities (Payment Services Directive)
  - for **business rules and standards** by market participants

- **SEPA implementation** is taking care of by the **SEPA Committees** in the 17 Euro countries and the additional 15 SEPA countries with support of the **SEPA Council**

- **Inclusion of stakeholders in the design and implementation is mission critical**