

SEPA National Conference

**Credit Transfers Offering
Within SEPA**

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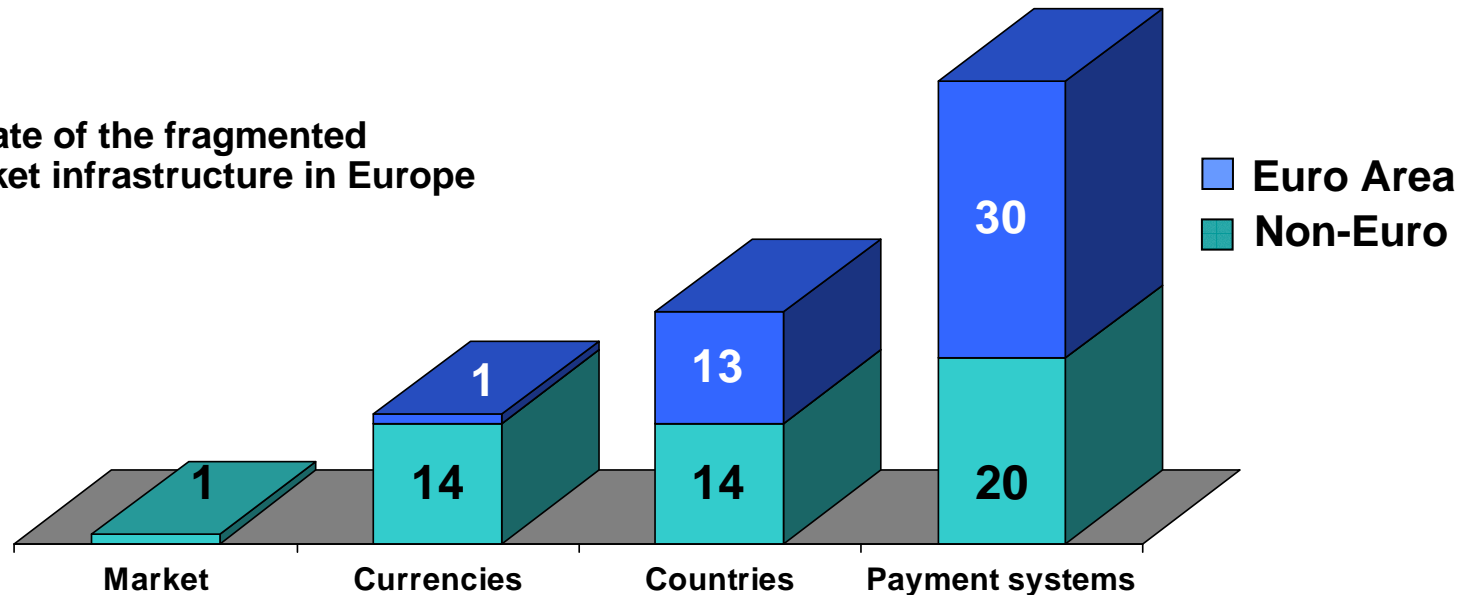
26th October 2007 at the Malta Hilton, St.Julians

Agenda

- Today's Payments Environment
- How will SEPA change the payments market?
- SEPA in a nutshell
- What is the SEPA Credit Transfer Basis?
- Countries impacted by SEPA
- Who is driving SEPA?
- Payment Services Directive
- Payment Services Directive compared to SEPA
- What benefits are there for Corporate Treasuries?
- Three steps to take in preparation for SEPA

Today's Payments Environment

The Current state of the fragmented payments market infrastructure in Europe today

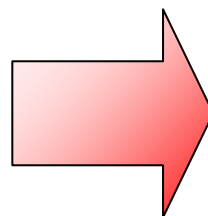
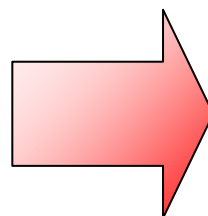


- Introduction of the Euro went only part-way to creating a single market
- The complex infrastructure explains the high payment transmission costs in Europe (currently 2% of Europe's GDP)
- There are over 50 separate payment systems in the EU 27, each with its own rules, formats and clearing cycles
- SEPA was designed to address these disparities and provide an environment for a more successful Europe

How will SEPA change the payments market?

NOW

- National payment systems each with its own rules, formats, clearing cycles, payment types
- Different standards
- Different consumer protection laws
- Different customer experiences
- Fragmented payments market



SEPA

- Domestic European market
- Simplification
- New Pan-European payment instruments
- Common standards
- Uniform legal framework (PSD)
- Common customer experience
- Single integrated payments market

SEPA in a nutshell

SEPA is a natural extension of the single currency (Euro). One which will create a single, level playing field for payments and collections across 31 European nations, offering standardised rules, formats as well as lower charges and improved delivery timescales.

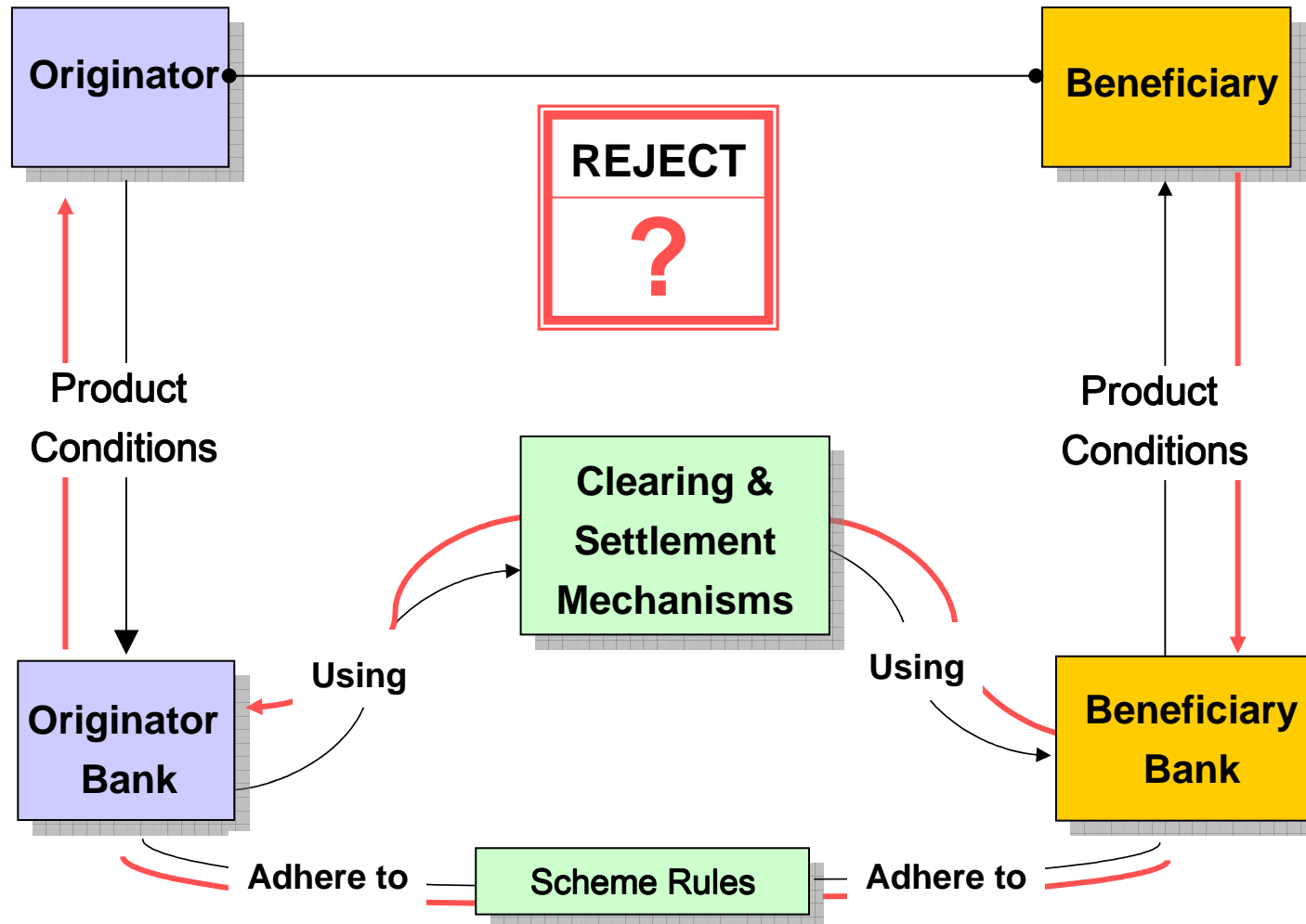
What kind of activity does SEPA affect?

- **Credit Transfers** (SEPA Credit Transfer - 2008)
- **Direct Debits** (SEPA Direct Debit – 2009)
- **Card transactions**

A priority payment service known as [Prieuro](#) has been proposed as a product template for banks to offer, but it is not mandatory.

The new SEPA rules apply to all Euro payments debited/credited to a Euro or foreign currency account.

What is the SEPA Credit Transfer Basis?



Scheme Rules include D+3 delivery and "Shared" charges

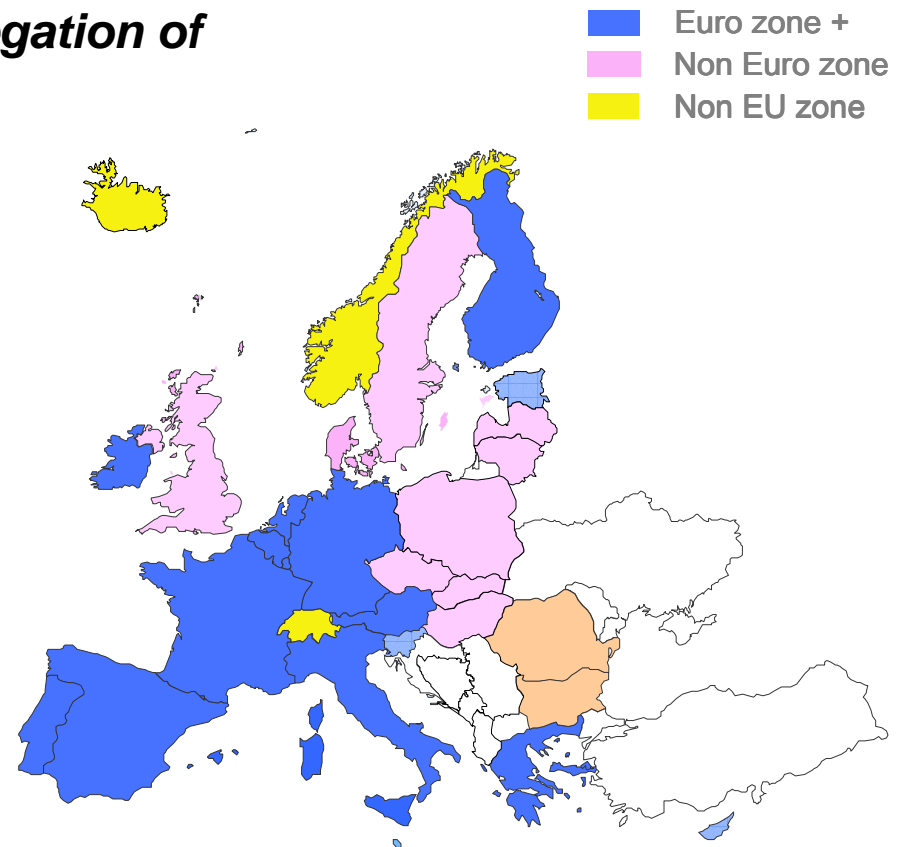
Countries impacted by SEPA

SEPA applies to an ever-increasing delegation of territories, currently 31 countries.

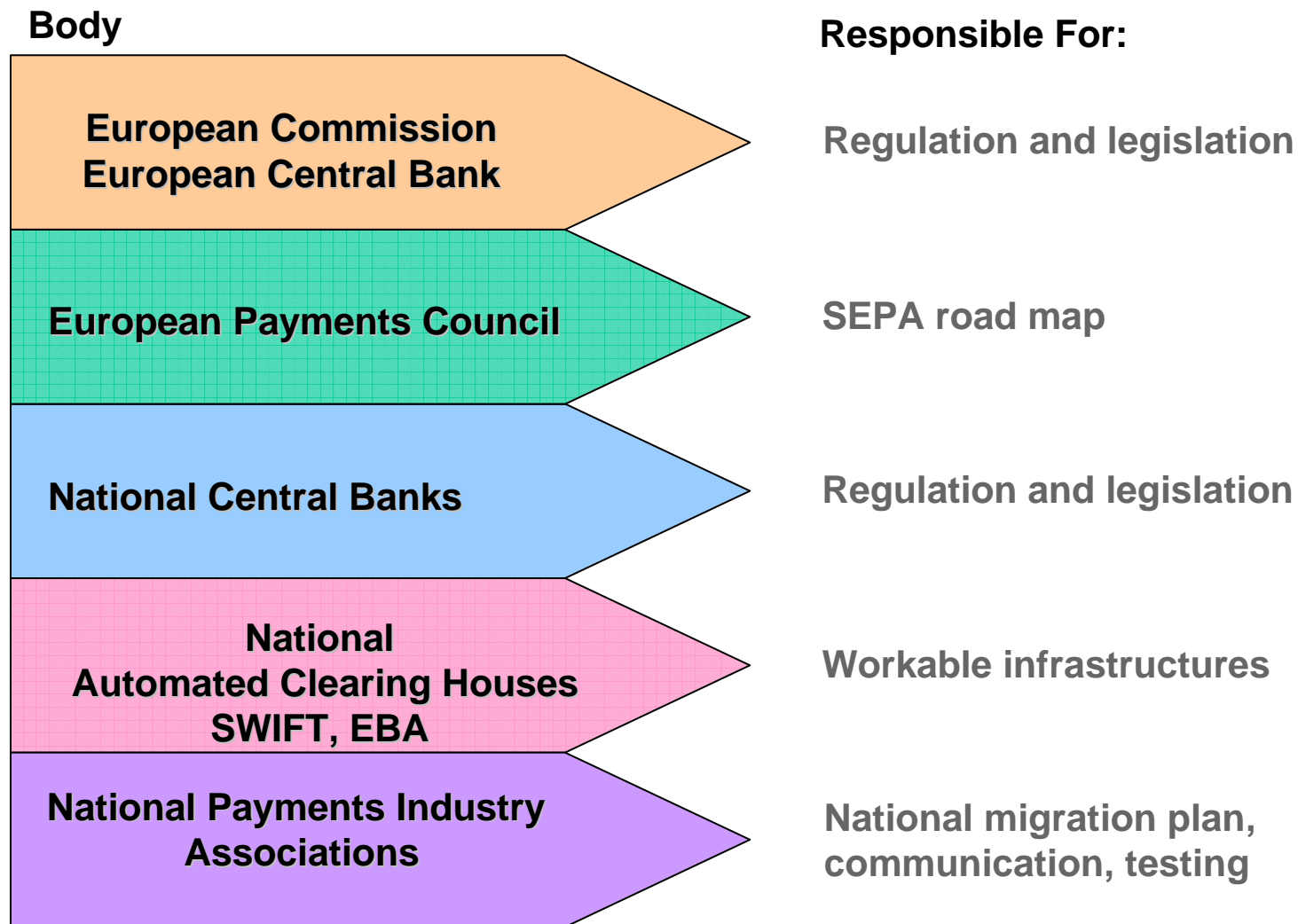
- EU = EU 27
(EMU = EUR is used in 13 countries)

Plus

- EEA = Norway, Iceland, Liechtenstein, Switzerland
- Adopters of EUR
 - 1 January 2008: Cyprus, Malta
- Likely next Adopters of EUR
 - 2008+: Baltic States
 - 1 January 2009: Slovakia
 - 1 January 2010: Czech Rep, Hungary (Poland, Sweden: TBA)



Who is driving SEPA?



Payment Services Directive

*In addition to the SEPA vision, there is the **Payment Services Directive** which provides a simple, harmonised set of rules on rights and obligations for the provision and use of payments services. It also aims to offer a high level of consumer protection.*

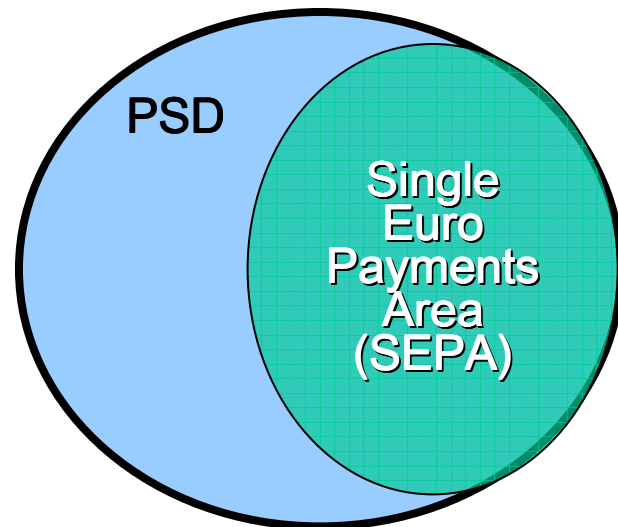
The European Parliament and EU Council have adopted the proposal for the PSD. The member states should then transpose the Directive as early as possible, and by 1 November 2009 at the latest, into national law.

PSD Aims:

- Generate more competition
- Provide simple, harmonised set of rules
- Ensure consumer protection
- Deliverable: 2008 and beyond

Mandatory for EU-27 banks (8,000 + banks) impacting:

- **All EU currencies**



Payment Services Directive compared to SEPA

<i>Category</i>	PSD	SEPA
<i>Effective date</i>	In effect from 1 Nov 2009	Start 28 Jan 2008
<i>Legal status</i>	Directive Articles stipulate provisions of the law	Self-regulatory initiative Rulebooks specify detail of the SEPA transactions
<i>Payment instruments</i>	Electronic payments + cards Existing and SEPA instruments	Electronic payments & cards New SEPA instruments only
<i>Geographic scope</i>	EU 27, EEA 3 plus Switzerland	EU 27, EEA 3 plus Switzerland
<i>Currency</i>	All Member State currencies	Euro only
<i>Domestic/cross-border</i>	Both	Both
<i>Type of institution covered</i>	Full range of payment providers (6 types of institutions), creating 'payment institutions'	Applies to credit institutions (banks) only
<i>Further details</i>	Focus is on bank - to - customer relationship – particularly consumer protection	Focus is on bank - to - bank relationship

Payment Services Directive compared to SEPA (cont'd)

<i>Category</i>	PSD	SEPA
<i>Coverage</i>	Does not cover PE-ACHs or CSMs	Provides framework for infrastructures/scheme governance – fosters emergence of PE-ACH's
<i>Rights and obligations</i>	Various provisions regulating rights & obligations of provider and user; provisions for consumer liability	Does not stipulate rights or obligations of the user
<i>Information</i>	Stipulates improved, minimum information for provider-to-user	Specifies standardised message format for bank – to – bank relationship
<i>Transparency</i>	Requires greater transparency of provider charges	No barriers between domestic and cross-border SEPA payment
<i>Execution Time</i>	Process payments by end of next business day by 2012	Focus on processes, including R messages

What benefits are there for Corporate Treasuries?

Immediate Benefits



Positive Impacts



Three steps to take in preparation for SEPA

There are three main areas where corporate customers can start making preparations for SEPA:

1. BIC & IBAN

Recommended Actions for Corporates:

- **SEPA's efficiency and STP will be powered by use of BIC and IBAN (Usage has been mandatory since 01/01/2007)**
- **Update master records with BIC and IBAN data for all suppliers**
- **Publish your BIC and IBAN details on your cross-border invoices so customers can quote them**
- **Ensure that you invariably quote BIC and IBAN in all payment instructions forwarded to your Bank for execution.**

Three steps to take in preparation for SEPA

2. Consolidate Accounts

Recommended Actions for Corporates:

- **The need to maintain multiple bank accounts across Europe may be reduced. You will need to conduct a feasibility analysis**
- **Can you pay all your suppliers electronically from a single account?**
- **Can your customers all pay you at your single, central account?**
- **Are certain locations restricted by local cheque issuance or local cash collections?**
- **Are there local central bank reporting requirements or corporation tax issues that rule out use of a single account?**

Three steps to take in preparation for SEPA

3. Accounts Payable/Receivable Review

Recommended Actions for Corporates:

- **Conduct a full audit of your AP/AR processes. These are usually prone to much costly manual intervention and automation levels are low**
- **Assess potential for a switch to the SEPA Direct Debit for greater levels of automated reconciliation**
- **Consider whether your volumes warrant a full purchase to pay solution incorporating electronic Purchase Order > e-Invoice > Payments > Credit Advice > Goods Despatched Notice > Reconciliation**

THANK YOU

Any Questions?