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SEPA for public administrations

Creating critical mass for the Single Euro Payments Area

1. Introduction and purpose

The SEPA initiative will create a single euro payments area and totally transform the environment for the users and providers of payment services in Europe.

This major political and economic harmonisation measure is designed to support the Lisbon agenda, stimulate economic growth, and encourage small and large business activity across the Single Market. The European Commission has underlined that SEPA will be a stimulus for other related developments such as e-invoicing, beyond the SEPA programme itself.

Since SEPA will happen in the period 2008-2010 and beyond, now is the time for the public sector and its bodies and agencies - especially those in the euro area - to make concrete preparations. This, of course, will involve initial investments in systems and processes.

In so doing, the public sector will provide a major impetus towards the achievement of SEPA's objectives as illustrated by:

1. Given the very large number of payments generated by and towards the public sector, public administrations will act as a major catalyst in moving payments into SEPA.
2. The new SEPA payment instruments require critical mass to deliver the promised efficiency and cost gains, and the public sector can make a significant contribution towards building economies of scale and reducing the period of duplicated infrastructure.
3. Public administrations will benefit considerably from the use of the new SEPA services, which will permit simplification, rationalisation, the potential for cost cutting and greater efficiency. Through early adoption, they will not be left behind as legacy payment systems are retired.



In promoting SEPA, the European Commission and the Eurosystem, together with industry, have stressed the importance of the early engagement by all relevant stakeholders, in particular the public sector. The SEPA initiative is at least as important and complex as the introduction of the euro in 1999 and of the euro notes and coins in 2002 and will require the same level of public sector commitment.

2. Background to SEPA

SEPA will create a single euro payments area. People will be able to make payments in euro all over Europe as easily as if they were making a payment in their home town. Not only will this be more convenient, it will also strengthen the internal market, improve efficiency and contribute to economic prosperity.

Following the introduction of euro notes and coins in 2002, attention has now turned to harmonising the diverse national and cross-border retail payment systems for the euro. Integrating these systems is a natural step towards making the euro a truly single and fully functioning currency. SEPA will help to realise the benefits of the Single Market in goods and services.

The SEPA programme is all about harmonising millions of everyday 'retail' payments. This major harmonisation programme is supported by Europe's banks and will deliver new benefits to consumers and business who make euro payments. As a result, there will be a number of changes to today's commonly used payments in order to provide SEPA-wide standardised instruments.

SEPA is an innovative and ambitious programme. There are many challenges associated with making it a reality. Over time, the benefits of an integrated payment market will be noticeable:

1. More efficiency. Europe will become more efficient thanks to the harmonisation of the payments involved in almost every economic transaction that takes place in society.
2. More opportunities. As barriers fall, there will be more opportunities for innovation and competition.
3. Support for the euro as a currency. Integrated payment systems will support the development of the euro by promoting greater confidence and deeper economic relations throughout SEPA.

Comprehensive information about the SEPA programme is set out in documents prepared by the European Payments Council (EPC), the banking industry's self regulatory body for SEPA.

These documents include EPC066-06 'Making SEPA a Reality' and EPC 156-06 'SEPA Explained', which set out the SEPA vision, details of the SEPA payment instruments, benefits to users, the geographic scope (SEPA includes both euro area countries and other European countries for euro payments), the milestones to be achieved and the roles to be taken by the various actors.

Further information is also set out in publications of the European Central Bank and the European Commission. The latter has provided considerable background rationale in the context of the planned Payment Services Directive (PSD), which will provide the essential harmonised legal framework.

The EPC has defined specific rules, practices and standards (called "schemes") for SEPA Credit Transfers and SEPA Direct Debits to replace existing national instruments. For card payments, the EPC has defined the SEPA Card Framework (SCF) which states how issuers, acquirers, card schemes, merchants and processors will adapt their operations to deliver a SEPA for card payments.

3. Key role of the public sector in payments

The European public sector is obviously a prime economic actor and is responsible for as much as 50% of the GDP in the euro area. Further, according to Charlie McCreevy, the EU Commissioner for the Internal Market, the public sector could account for 20% or more of payments made in society.

Public administrations receive very large volumes of payments, for example:

1. Taxation at EU, state, regional and local level in many forms
2. Social security and pension contributions
3. Miscellaneous small payments e.g.: transport fares, parking fees, fines, etc. and equally initiate substantial volumes of payments:
4. Salaries
5. State benefits and pension payments
6. Payment for goods and services purchased

Within the public sector, consideration also needs to be given to payments handled by wholly- or partly- state owned utilities and enterprises. In some EU countries, a major part of the payments industry itself is in the hands of public sector financial institutions.

The vast majority of these payments are domestic and therefore will be impacted by the adoption of SEPA instruments by euro area countries as they modify their national payments infrastructure.

However, whilst the volumes of cross-border payments are relatively less numerous, they are likely to increase strongly through public sector purchasing under EU public procurement rules and through interaction with an increasingly mobile population and multi-country businesses.

Public administrations will of necessity become increasingly engaged with using SEPA payment services. Indeed they could benefit substantially from early adoption so as to support the public policy initiative itself and to gain major operational efficiencies in their own right.

4. Benefiting from the first wave of SEPA payment services starting in 2008

Public administrations will benefit immediately from using SEPA-compliant payment services.

These benefits will derive from using the payment services offered by banks based on the SEPA schemes from 2008 onwards:

1. **A single standard saves money:** Public administrations will be able to submit electronic payment instructions in euro to reach customers of all banks operating throughout SEPA using a single standardised format, a common account identifier based on the BIC (Bank Identifier Code) and IBAN (International Bank Account Number) and one set of processing rules, including procedures for rejected and returned payments. The current necessity to distinguish between domestic and cross-border payments in euro will not exist in SEPA.

Today it is very likely that public administrations are submitting payments in a multitude of ways, which results in expensive and inefficient processing operations, often involving substantial manual intervention. This will provide a major opportunity for rationalisation and direct cost savings.

2. **Enlarged geographic reach and more choice:** Sending and receiving payments to and from citizens and corporates throughout the SEPA (30 countries) will be considerably eased. Most obvious are the substantial numbers of pensioners who reside some or part of the year outside their original home country. Similar considerations apply to students, businessmen and other mobile people as well as corporate entities with which the public sector has economic relations.

The benefit of geographic reach is the ability to make and receive payments using the same infrastructure and channels as apply to purely domestic transactions. SEPA becomes one large competitive payment market. Public Administrations will have a great deal more choice in selecting service providers across the entire market place.

3. **Easier reconciliation:** The SEPA payment instruments will provide more extensive and predictable facilities for the end-to-end transport of standardised remittance information included within a SEPA payment from payer to receiver.

This will facilitate automated reconciliation and potentially reduce the number of costly exceptions and queries leading to further cost savings.

4. **Exploiting Internet technologies:** The new SEPA payment instruments are based on XML (Extended Mark-up Language) standards, which power the Internet.

They provide a uniform method for describing and exchanging structured data thus enabling full interoperability between parties. They will greatly contribute to improving the efficiency of IT developments and end-to-end STP (straight-through-processing). The SEPA Schemes recommend that end-users use the same XML Standards in instructing their banks as the banks use themselves thus promoting end to end efficiency.

Payments will not be the only arena in which public administrations will embrace XML and Internet technologies. However, payments can feed the process and help to deliver lower IT costs and greater user satisfaction through richer data management.

5. **New direct debit capability:** SEPA-compliant direct debit services will enable recurrent and one-off payments to be collected from the entire SEPA with uniform formats, time cycles and rules, including refunds.

Today a Pan-European direct debit service does not exist on any scale and the new SEPA scheme provides the foundation for this as a new capability which can also fully support today's national volumes.

6. **Predictable cash flow:** Over time, execution times are expected to reduce, thus speeding up cash flow. Many current payment systems already provide for short execution times and there is not expected to be any regression in current execution times for payments at national level. Payments made on a SEPA-wide basis will benefit from a guaranteed maximum execution time as is being formulated as part of the PSD deliberations. These features will deliver benefits in terms of predictability and cash flow management.

7. **Wider use of card payments:** As payment cards become fully interoperable across SEPA as provided in the SEPA Cards Framework, there will be benefits to public administrations for payments acquired through cards in terms of acceptance, consistency and processing efficiency. Wide introduction of a standard security technology (EMV Chip and PIN) will provide a common approach to winning the battle against fraud. The usefulness and ubiquity of cards will receive further boosts from SEPA, strengthening their already explosive growth, thus promoting less cash usage.



8. **Potential for leapfrogging:** The adoption by public administrations of the new SEPA payment instruments will give them a golden opportunity to renew ageing payment applications. It has often been the case that administrative systems such as those supporting payments are updated infrequently on a minimum basis. SEPA will be a reality and advantage can be taken of the newest and richest technology offerings and their associated cost benefits.
9. **Still fully secure:** It should be emphasised that the SEPA payment instruments will enjoy at least as good levels of safety and security as today. There will be over time further improvements based on the latest developments in technologies such as e-signatures and encryption.
10. **Legally harmonised:** All users of payment services will benefit from the harmonised legal environment contemplated in the PSD and being developed by the European Union as an important parallel and supportive initiative alongside the SEPA programme.

5. Benefiting from additional payment market developments stimulated by the introduction of SEPA

SEPA will transform the market for payment services. The initial SEPA products and services will be based on the cooperation between providers of payment services at the level of standards, rules and practices. Further waves of innovative value-added services are likely to be developed through competitive forces. In the integrated market place that SEPA brings into being, economies of scope and scale provide the stimulus for this innovative activity.

Public administrations will benefit from these value-added services as soon as they are made available to adopters of the SEPA payment instruments.

A likely example is electronic bill presentment and payment (e-invoicing), whereby invoices are no longer printed and mailed but presented electronically to the recipient who initiates the payment from an Internet banking portal. This eliminates printing and mailing costs, cheques and other paper payments whilst substantially reducing reconciliation overheads. There could be major cost benefits for the whole of society which could run into billions of euro.

Beyond e-Invoicing, banks are also developing further value-added services which will support the integration of the physical and financial supply chains. These services could significantly improve operational efficiency and cash-flow.

The SEPA Direct Debit is planned to support electronic mandates secured with electronic signatures. The public sector is a major promoter of e-signatures and e-government, and will be able to actively participate in these development with tangible benefits to its own efficiency and that of its citizens.



Individual banks will build on the SEPA Schemes and Frameworks to create new value propositions for payments.

6. Proposed next steps for public administrations

In order to start preparing for the required changes and benefits of SEPA, it is suggested that the public sector and its various bodies and agencies take immediate steps along the following lines:

- Create a centre of excellence to draw together information about SEPA and current payment activities.
- Engage with the SEPA planning and implementation projects at national level in close collaboration with central banks, banking communities and other stakeholders.
- Make - in conjunction with banking partners - an assessment of the practical steps needed to adopt the SEPA payment instruments together with their associated benefits and efficiencies.
- Establish a budget and mobilise a SEPA project organisation with identified early adopter priorities under the leadership of an accountable senior executive.
- Educate both internally and externally among stakeholders the critical importance of SEPA and the required supporting information.
- Ensure that all financial institutions within the public sector have concrete plans to become SEPA compliant.
- Make an inventory of the SEPA planning of all related public sector enterprises and agencies.