

SEPA BENEFITS

1. PUBLIC ADMINISTRATIONS 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) **Geographic reach and 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) **Benefiting from 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:** 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 Payment Services Directive (PSD) deliberations. These features will deliver benefits in terms of predictability and cash flow management.
- (7) **Growth in 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) **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) **Legal harmonisation:** 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.

2. 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.

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 this 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.