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# Payments in Europe: a new step!

**INFORMING**



# EDITORIAL

The present document has been put together by the **MEDEF**, the French business federation, and more specifically by its Working Group on SEPA, chaired by Luc MIGEOT (**Ni-Hao**)

SEPA being a truly European issue, we are happy to supply you with the English version of our works.



### ***Prepare today to benefit tomorrow from the Euro payments area!***

Since January 2008, Europe has been setting up the Single Euro Payments Area (SEPA). The system will make it possible for payments to be made in the same way across Europe: Paris, Frankfurt, Athens ... same process and same conditions. It will eventually replace the system we use today.

A real sea change is in the offing for our payment infrastructures (and those of our neighbours); but are banks the only businesses concerned?

The answer is a loud “no”!

- at macroeconomic level: the smooth functioning of the market depends on payment infrastructures;
- at microeconomic level: payment is at the heart of every transaction between customer and supplier. The information associated with the payment is of interest to many posts within the business.

In other words, all businesses are concerned!

This is a new horizontal issue, similar to the introduction of the Euro. It will keep us busy in the years ahead.

If we address it today and prepare methodically, we will give ourselves the means to enjoy all the benefits tomorrow.

SEPA will not be established overnight; it is a construction process in which businesses are invited to take part. We are sure they will join in!

## What is SEPA?

The Single Euro Payments Area (SEPA) represents the third chapter of the ongoing work related to the Euro. Its objective is to make electronic payments within the Euro zone as simple as payments currently made inside the same country.

### ***A new legal framework***

The Payments Services Directive (PSD) seeks to provide SEPA with the legal framework it needs to create uniformity in payment systems in all countries of the European Union plus Switzerland, Liechtenstein, Norway and Iceland. The directive has to be transposed in each country by November 2009 at the latest.

### ***Three means of payment are concerned***

The SEPA project sets out to put in place a single set of instruments for bank money payments (transfer, direct debit, cards). This means that businesses will be able to make and receive payments in euros throughout SEPA, using the same means of payment, payment cycles, levels of security and processing as in their home country.

In France for instance, the local credit transfers (“*virements*”), direct debits (“*prélèvements*”) and card payments will therefore be transformed into the following SEPA instruments: SCT (SEPA credit transfer), SDD (SEPA direct debit) and SCF (SEPA cards framework) as shown in the following table prepared by the French national SEPA committee.

Current means of payment	Objectives of SEPA project	Migration periods
Ordinary transfer	Replaced by SCT	2008 to 2011
Direct debit (ordinary and accelerated)	Replaced by SDD	2010 to 2012
Interbank card	Replaced	2008 to 2010
Private card	At issuer's choice	
Tele-payments	Initially maintained	
TIP	Maintained*	
Bill of exchange / promissory note	Maintained*	
“Specific” transfer	Unaffected	
Cheque	Unaffected	
Electronic purse	Unaffected	

\* Works to harmonise those instruments at European level might be launched

## ***Migration period***

The new instruments will be set up progressively between 2008 and 2012. Banks have been offering SEPA credit transfers since 28 January 2008, and will offer SEPA direct debits from 2010. In the initial period, the current “domestic” means of payment will co-exist with the new ones brought by SEPA. This is known as the migration period. The plan, for the French market, is that twelve months after the critical mass has been reached<sup>1</sup>, the old means of payment will be definitively phased out.

It is essential that each business measures the external and internal constraints that apply to it, such as lead times for adapting its own structures, its tools and its administrative processes.

## ***National pilot scheme***

Work on implementing SEPA is a task for each national community. In France, the SEPA migration plan is being coordinated by the SEPA national committee, co-chaired by the Bank of France and the “*Fédération Bancaire Française*”. In October 2007 this Committee adopted version 2 of France’s “SEPA migration plan”.

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<sup>1</sup> When 75% of the volume of transactions and 50% of users have migrated to the SEPA system

## ***SEPA changes the business environment***

### ***All posts in the company are concerned***

Payment is at the heart of every commercial transaction. Accordingly, the SEPA project affects every department of the company (information systems, treasury, accounting, purchasing, sales administration, credit management, human resources, risk management, etc.). This makes it a real corporate project. The first step that should be envisaged is therefore the nomination of a “Mr SEPA”: the project leader in charge of preparing, launching and piloting the project. (The attached “job description” will help you make this choice, which is crucial for the continuation of the project.)

### ***SEPA: opportunities...***

With SEPA, the European Commission wants to increase competition in the payments services market in order to enhance the service level of provided products, thanks to price transparency and provision of services at a lower cost. More specifically, the Commission believes that SEPA will help increase the efficiency of the payments sector, which will lead to savings and important advantages for the European economy as a whole.

### ***New commercial opportunities***

Cross-border operations will be facilitated thanks to the new means of payment, a development which is expected to reinforce the opening of the European market.

Hence, SEPA will offer companies a wider choice of services, and will simplify cross-border trade. The offer of payment services is set to improve thanks to greater competition.

### ***Cost optimisation: productivity gains and economies of scale***

For companies, cross-border payments will be simplified, which will make it possible to reduce costs and improve treasury flows.

Apart from optimisation of treasury flows, SEPA will make it possible to optimise overall costs. By way of example, automation of the invoices/payments chain will be improved thanks to a “reference” field that will be harmonised for transfers and direct debits throughout Europe. This is expected to reduce errors and disputes significantly.

## ***Greater competition between financial establishments***

Competition between payments services providers is expected to lead to a better quality in the services offered to companies and to lower prices for these services.

### ***... But also costs***

Companies will have to adapt the existing infrastructures, making technical and organisational changes. Among other things, this will involve the development of software to take account of the new formats of files and the new bank identifiers.

#### ***Some illustrations:***

##### ***A single direct debit across Europe***

Private individuals will be able to pay direct debits from their domestic bank account to any other European country.... An advantage which companies are likely to translate into new opportunities to improve their service, reduce their administrative costs and throughput times, and – why not? –get new customers...

##### ***From RIB (domestic bank account number) to BIC/IBAN***

Starting in January 2008, the current “domestic” identifier will be replaced by the European identifier (IBAN coupled with BIC). Banks are expected to offer solutions which will enable companies to automatically change their domestic bank details databases into European ones.

## SEPA: a corporate project

All posts in a company are concerned by the SEPA project. It is therefore essential that managers incorporate the project in their strategic plans, become familiar with it and draw up, as early as possible, a company-specific scenario for the migration to the new situation.

We recommend nominating a “Mr SEPA” as the first stage to get this project off the ground. The ambition of the timetable presented in the attached “*mission statement*” is to raise awareness among companies about the time needed to carry out this project, in large companies in particular.

Since the 28 January 2008, banks have been able to receive and issue SEPA credit transfers. Companies are therefore able already to start to adapt their infrastructures to the new means of payment, leaving the SDD on hold until it is implemented in early 2010.

As we still have a few years before the change is imposed on us, we recommend using this time to prepare our companies properly for this change... thus enabling them to turn the SEPA constraint into an opportunity. Enjoy SEPA!





The MEDEF is the leading network of businessmen and women in France. It is appointed by its members to represent them and create a favourable environment for businesses. Two complementary networks, that of the profession, with the professional federations, and that of the local MEDEF organisations, ensure maximum representation for firms all over France and in all areas of activity. The MEDEF also promotes firms at an international level.

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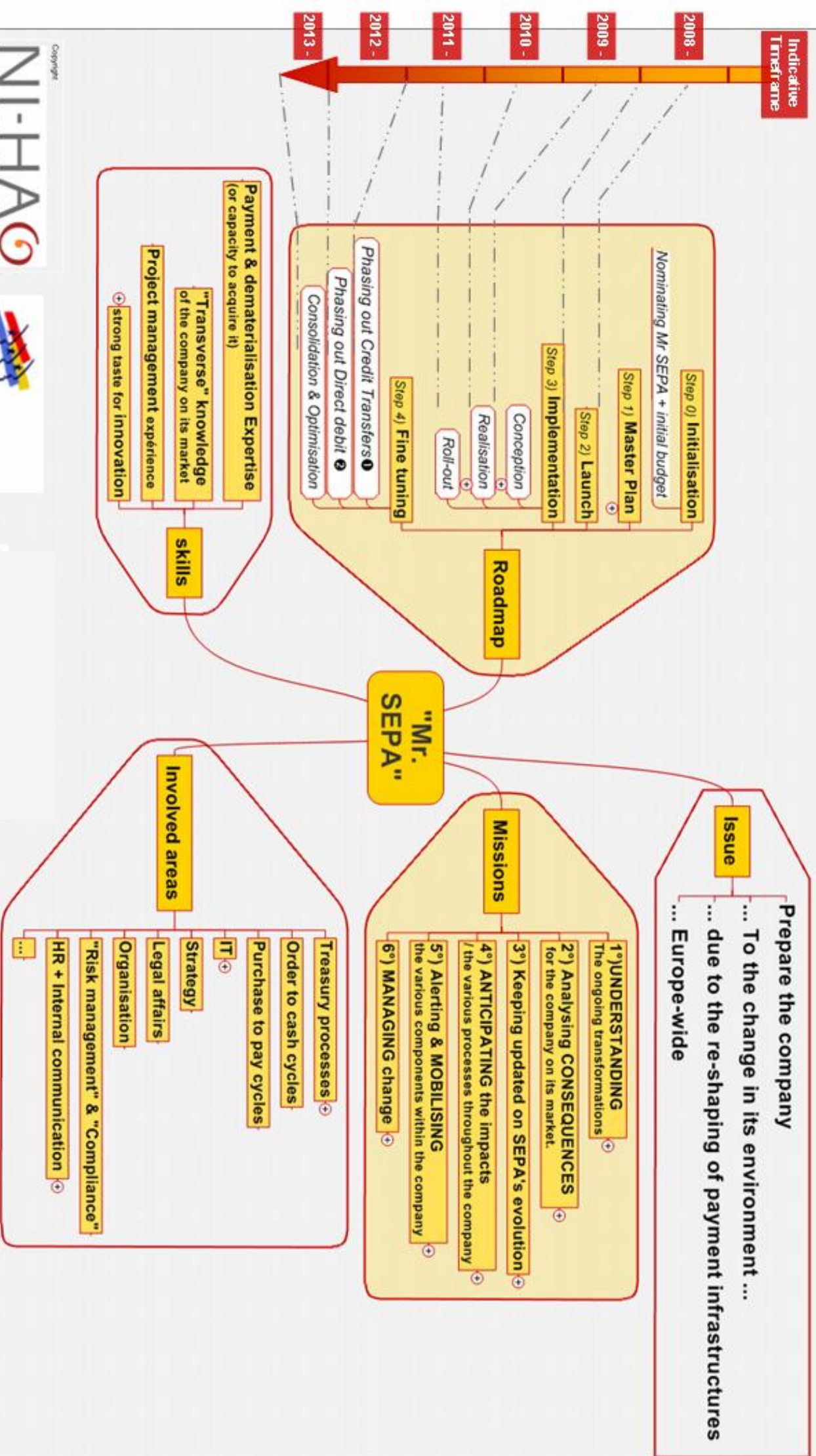
Ni-HAO is a consulting firm specialised in process dematerialisation. Its founder, Luc Migeot, has been involved specifically in payment process dematerialisation within corporates for over 10 years.

Luc is Chairman of both the MEDEF “workgroup on SEPA” and the BusinessEurope “SEPA taskforce”, he also represents BUSINESS-EUROPE at the *Stakeholder Forum* of the European Payments Council and *SEPA High Level Meeting* of the European Central Bank..

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# APPENDIX

## Mission statement for "Mr. SEPA"





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