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EUROPEAN COMMISSION

Brussels, 16.12.2010
SEC(2010) 1583 final

COMMISSION STAFF WORKING DOCUMENT

SUMMARY OF THE IMPACT ASSESSMENT

Accompanying document to the

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

establishing technical requirements for credit transfers and direct debits in euros and amending Regulation (EC) No 924/2009

(Text with EEA relevance)

SEC(2010) 1584 final
SEC(2010) 1585 final
COM(2010) 775 final

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1. INTRODUCTION

The vision of a Single Euro Payments Area (SEPA) aims at creating an integrated market for electronic payments in euro, with no basic distinction between national and cross-border payments. For electronic payments, a large number of different national payment formats, standards, and rules still exist across the EU. SEPA shall provide European citizens and businesses with low cost, user-friendly and reliable payment services, and create favourable conditions for increased competition and development of payments-related innovations.

The success of the SEPA initiative is very important in the current economic, monetary as well as political context. The potential direct and indirect benefits of SEPA for the wider European economy exceed EUR 300 billion over a six-year period – assuming that migration to SEPA payment instruments is comprehensive and rapid. Two crucial milestones on the way towards the realisation of SEPA have already been achieved: the launch of the SEPA Credit Transfer (SCT) on 28 January 2008, and the launch of the SEPA Direct Debit (SDD) on 2 November 2009.

SEPA was originally conceived as a primarily market-driven project. The pan-European schemes are designed and implemented by the European Payments Council (EPC), a coordination and decision making body set up by the European banking sector. However, there is increasing recognition by all categories of stakeholders that a legally binding end-date may be necessary to achieve successful project completion.

The scope of this impact assessment is limited to two payment instruments, euro credit transfers and euro direct debits.

2. PROBLEM DEFINITION

Full integration of the payment market will only be accomplished once pan-European payment instruments replace the national legacy instruments. At the current stage however, pan-European payment instruments are far from substituting national payments. As of April 2010, only 7.5 % of all credits transfers processed by clearing and settlement mechanisms were executed in the SCT format. An extrapolation of this data results in the projected completion of SEPA after more than 30 years of migration.

2.1. Reasons for the slow migration to SEPA

Root cause: Uncertainty of SEPA completion and phase-out of legacy products. The lack of a common time horizon encourages market players on the supply and demand side to delay migration efforts. As long as existing legacy payment instruments can be used, payment service users will postpone the required migration efforts. On the other side, banks shy away from necessary infrastructure and marketing investments for SEPA until they are certain that customers and their systems are 'SEPA-ready'. Hesitation on the supply side is exacerbated by the perceived lack of clarity on an appropriate long term business model for SDD complying fully with EU competition rules. Both sides of the market – supply and demand – are waiting for the other one to move first.

Reluctance to invest: first mover disadvantage. Payment service providers (PSPs) deciding to market the new SEPA instruments early and actively have a major first mover disadvantage.

During the transition period these PSPs still have to support duplicate costs, i.e. for both the existing payment systems as well as the new SEPA system.

Missing incentive for PSPs to develop SEPA products fully meeting user needs. As long as there is no certainty about SEPA completion PSPs can continue to offer existing legacy products to their customers and do not have a sufficient incentive to develop and actively market SEPA products which meet all customer requirements.

Fragmented demand side and low level of SEPA awareness. The market for payment services is characterised by the demand side (payment service users) being much more fragmented than the supply side (PSPs) and not aware of SEPA benefits.

2.2. Effects of slow migration without an end-date: a baseline scenario (no intervention)

Untapped economies of scale due to diverging payment standards and processes. Despite the existence of SCT and SDD payments domestic transactions, are still done predominantly in national legacy formats. In 2009, there were still over 20 different national processing infrastructures and schemes for retail euro payments. These differences hamper the inter-operability of payment services between Member States and impede the realisation of economies of scale effects.

On the demand side, businesses operating in a multi-national environment still need to organise their treasury operations and cash pools at national level. They have to maintain relationships with many PSPs offering different kinds and levels of services and using different payment formats.

Limited competition in the EU payments market. Currently, any PSP planning to enter a foreign market for payment services needs to fulfil a number of purely national technical and business requirements. The complexity and the resulting cost of such adjustments represent a significant barrier for operators which want to offer their services abroad.

Cross-border mobility of payment service users is also an important requirement for effective competition in the payments market. The opening of a payment account in another Member State today is often refused by PSPs on the mere basis that the consumer is not a resident or a national in the Member State concerned. Consequently, the choices of users are often restricted to the incumbents of the national markets and the provision of payment services on a cross-border level is non-existent or more complicated than necessary.

As regards direct debits specifically, the persistence of business models based on multi-lateral interchange fees (MIFs) between PSPs in a limited number of Member States, set up to finance the whole operation of the direct debit system, also restricts competition and prevents the emergence of an effective, efficient and competitive market.

Hindered innovation. A fragmented payments market impairs the emergence of efficient pan-European payment related innovations, such as online and mobile payments or e-Invoicing. As innovative services mostly emerge at national level only, there is a risk that market fragmentation is increased and perpetuated.

Non-productive investments and duplicate operational cost for legacy and SEPA systems. Many participants in the European payments market suffer from duplicate, transitional costs of providing or using payment services. Simultaneously maintaining national legacy payment platforms and a new pan-European SEPA platform requires significant extra resources and leads to a missing return on already taken investments.

A protracted migration to SEPA would result in an overall loss of EUR 43 billion for the economy just over six years period. The negative effects would be spread over all stakeholders with the exception of consumers.

3. EU'S RIGHT TO ACT AND JUSTIFICATION

By its nature an integrated euro payments market requires a Community-wide approach as the underlying standards, rules and processes have to be consistent across all Member States. This supports the aim of Article 3 of the Treaty on the European Union stipulating an internal market and an economic and monetary union whose currency is the euro. The alternative to a Community-wide approach would be a system of multilateral or bilateral agreements whose complexity and costs would be prohibitive as compared to legislation at European level. An intervention at EU level therefore complies with the subsidiarity principle.

4. OBJECTIVES

In accordance with the identified problems, the following policy objectives are identified:

General:

– To increase the efficiency and competitiveness of the EU payments market by realising economies of scale and operational synergies on both the supply and demand side.

– To create an open and level playing field for competition in the payment service market at European level and facilitate downward price convergence for payment services in Europe.

– To establish a pan-European platform from which innovative and value-adding payment services and products can be launched.

Specific:

– To achieve full operational integration of the payments market in Europe for credit transfers and direct debits.

– To eliminate excess complexity and the duplicate cost resulting from the need to maintain multiple payment platforms on the supply and demand side.

Operational:

– To create transparency and market certainty regarding SEPA completion for credit transfers and direct debits and the phase-out of corresponding national legacy payment instruments.

5. POLICY OPTIONS

Three main scenarios can be envisioned:

No intervention – baseline scenario. Under this scenario, SEPA migration would be left to market forces.

Give new impetus to SEPA migration by additional incentives. In this scenario the SEPA migration process could be accelerated and reinforced by a series of measures at the level of Member States.

Setting a SEPA migration end-date. Under this scenario, an end date for SEPA migration would be set by a Regulation. National legacy payment instruments would need to be phased-out and replaced by pan-European instruments.

6. ANALYSIS OF IMPACTS AND COMPARISON OF OPTIONS

6.1. Impact of additional incentives

Slow SEPA migration process could be in principle boosted by a series of measures undertaken by or aimed at different SEPA stakeholders at the national level. On the supply side a full scale communication and awareness-raising campaign, addressed to the payment service users would be useful. On the demand side these measures could be complemented by investment support for companies, for example relaxed amortisation rules, write-off of the cost of personnel training or even tax rebates. In addition, public authorities could play an avant-garde role in the migration processes and actively promote SEPA payment instruments. Some forms of coordination at the EU level could be also contemplated.

A major advantage of such an approach would be the fact that it does not require lengthy legislation procedures and remains quite flexible. A fundamental weakness of such approach is that any set of non-binding measures aimed at simply accelerating SEPA migration will not resolve the root problem, as discussed in 2.1. Besides, such measures may be simply too costly in the current economic climate and their added value difficult to measure in terms of increased welfare.

The option of additional incentives is therefore discarded.

6.2. Impact of setting a SEPA migration end-date

A study by CapGemini estimates that the benefits of a swift migration from legacy payment instruments to SEPA instruments could reach EUR 123 billion over a six-year period. According to the study, the estimated total benefit results from an even higher gain on the demand side (EUR 175 billion) offset by a loss on the supply side (EUR 52 billion). Benefits on the demand side are driven by two factors:

– operational cost savings due to optimisation of payment operations;

– a positive effect from the reduction of bank fees resulting from more intense competition.

The study predicts that the benefits on the demand side would be spread fairly evenly across all stakeholders, i.e. consumers, businesses and the public service. These benefits are just the direct effects of migrating to SEPA rapidly.

In more qualitative terms, an end-date for SEPA credit transfers and direct debits accelerates benefits for the stakeholders in the following areas:

Increased standardisation leading to complexity reduction and economies of scale. With full SEPA migration, businesses would be able to centralise their euro cash management and simplify/automate their payment procedures. For consumers, who are becoming increasingly mobile standardised cross-border payments would eliminate the need for several bank accounts in different countries.

Increased competition in an open and more transparent playing field. For PSPs, an integrated payments market would lower entry barriers across borders, thereby attracting new market players and intensifying competition. Furthermore, standardised payment instruments would allow consumers, businesses, and public administrations to more easily compare payment products and thus allow users to benefit from more intense competition and better prices.

Opportunities for pan-European innovation. Through common standards and the creation of a European level playing field, a completed migration to SEPA would foster payments modernisation and the development of new services such as mobile and online payments, or e-Invoicing, on a pan-European basis.

6.3. Comparison of baseline scenario versus setting an end-date

6.3.1. Comparison in terms of achieving the specific objectives

Objective/Option	**Effectiveness**		**Efficiency**
	Integration of the European payments market for credit transfers and direct debits	Elimination of duplicate cost and excess complexity of payment systems	
Base scenario 'do nothing'	0	0	0
Setting an end-date	+++	++	++

Contribution to objectives:
+++ (Strong); ++ (Moderate); + (Weak) positive contribution
– – – (Strong); – – (Moderate); – (Weak) negative contribution; 0 neutral contribution

6.3.2. Comparison in terms of stakeholder impact

Stakeholder	**Benefits**	**Costs**	**Overall effect**

Businesses	Improved cash/treasury management Greater liquidity Reduced banking fees and internal payments admin costs Straight-through-processing Development of added value services	Migration effort – new or upgraded payment systems and processes Staff training	+++
Public Administrations	Reduced banking fees and admin costs Straight-through-processing Development of added value services Increases the benefits of public tendering of payment services, since offers could be better compared and inefficiencies caused by national payment formats should disappear.	Migration effort – new or upgraded payment systems and processes Staff training	++
Consumers	Reduced banking fees/wider range of services due to increased competition More innovative, user-friendly, secure, and convenient payment instruments	Change of habits – IBAN (and BIC where necessary)	++
Banks/PSPs	Scale economies/Operational savings New business opportunities as competition barriers reduced	Investments for SEPA payment platform Revenue impact for incumbents due to increased competition	+

Overall effect compared to the baseline scenario

Based on this comparison, it is recommended to pursue the option of setting an end-date.

6.4. Technical sub-options for the implementation of a SEPA migration end-date

In order to be effective an end-date needs to be clearly defined at technical level. A number of sub-options for the end-date implementation exist in six relevant areas. These sub-options have been compared against the sets of criteria deriving directly from the policy objectives.

Reference basis for adopting pan-European credit transfers and direct debits. The recommended option is to establish an end-date on the basis of general essential requirements which need to be fulfilled by pan-European credit transfers and direct debits. The essential requirements will also include the existing international and non-proprietary standards. Two other alternatives were assessed and rejected, in particular an approach based on existing schemes and rulebooks as developed by the EPC and an approach limited to existing technical standards.

Transaction domain. It is recommended to follow an approach where the essential requirements would apply throughout the whole payment transaction domain. An estimated EUR 84 billion of operational savings on the demand side depends entirely on payment market integration extending beyond the inter-bank space. Consequently, the option of limiting essential requirements to the inter-bank space has been assessed and rejected for the above reasons.

Cross-border opening of bank accounts. It is recommended to abolish any discriminatory treatment of non-residents and non-nationals as regards the opening of payment accounts. This would ensure that the full benefits of SEPA in terms of increased competition (EUR 91 billion) could be reaped. A continuation of the current practice has been assessed and rejected for the above reasons.

Product specification. It is recommended to apply an-end date also for niche products i.e. credit transfers and direct debits which represent low volume payments and offer specific functionalities. However, in order to allow for the necessary adaptations in the pan-European schemes, a transitional period in the range of 3–5 years shall be granted. Two other alternatives were assessed and rejected, namely an all-inclusive approach applying to niche products in the same way as to standard products, and a permanent exclusion of niche products from the essential requirements.

Member States scope. It is recommended to pursue the sub-option with a common end-date for the euro area and a later common end-date for the non-euro area, since euro payment volume shares in non-euro area represent only an estimated 2 % of all euro payments. Two other alternatives were assessed and rejected, in particular individual end-dates by Member State, and a common unique end-date for euro and non-euro area Member States.

Deadline. It is recommended to pursue the sub-option of separate end-dates: one year after entry into force of the Regulation at the latest for credit transfers and two years for direct debits. The sub-option of a common end-date for credit transfers and direct debits was assessed and rejected.

Clarity on the long term business model for pan-European direct debits. It is recommended to prohibit the general application to every direct debit transaction of multi-lateral interchange fees (MIFs) between PSPs (and measures of equivalent object or effect) and to allow MIFs only under certain conditions for direct debit transactions which cannot be properly executed or which are being reclaimed by a PSP. To ensure a level playing field, bilateral and unilateral interchange fees for these transactions should also only be allowed if cost based and aiming at an efficient allocation of costs to the entity having caused these transactions. The alternatives of continuing the current practice or imposing a positive or a capped MIF for every direct debit transaction have been assessed and rejected as they would not address the currently perceived lack of clarity which slows down migration to SEPA.

7. MONITORING AND EVALUATION

An evaluation is recommended three years after the entry into force of the regulation so as to assess how effective and efficient it has been in terms of achieving the objectives presented in the impact assessment and to decide whether new measures or amendments are needed.