

SEPA - a European payments market

The EU is on its way to becoming a single payments market and a closer community. The EU member states are aiming to implement SEPA (the Single Euro Payments Area) – which means that all euro payments, cross-border as well as domestic, will be processed in the same way across Europe¹. SEPA will simplify the processing of payments, strengthen the EU as a market, increase competition, enhance efficiency, and contribute to economic growth in the EU.

WHAT IS SEPA?

SEPA is a collaboration between the European Commission, the European Central Bank and European banks, and is led by a body named the EPC². SEPA encompasses all 27 EU member states, plus Iceland, Liechtenstein, Norway and Switzerland. By 2008 all banks in the SEPA area must have adapted their services for payments in euro to a common standard.

THE EU DIRECTIVE PSD

Parallel to SEPA, the conditions for payments within Europe will be regulated through legislation. The new EU directive, PSD – Payment Services Directive, shall be part of national law from November 2009. Conditions involve for example how to value date, right to refund direct debit payments, and information requirements. Unlike SEPA, PSD also applies to domestic payments in all currencies of the member states.

SEPA WILL MEAN

- A common standard in Europe for payments in euro
- No distinction between domestic and cross-border euro payments within the EU/EEA area, plus Switzerland
- A common set of payment instruments through the application of rules for clean payments and direct debits, and a framework for card payments

SCHEDULE FOR SEPA



¹ SEPA encompasses all EU member states, the EEA members Iceland, Liechtenstein and Norway, and Switzerland.

² See the glossary at the back of this brochure.

EFFECTS FOR YOUR COMPANY

The aim of SEPA is to achieve simple and standardised payment flows in euro within Europe. Companies will be able to send and receive cross-border euro payments in the same way as domestic payments. For your company, SEPA may lead to:

- Lower processing costs – for euro payments, your company can reduce the number of bank accounts, and instead process payments via an account/central account in euro
- A uniform process for all incoming and outgoing payments, domestic as well as cross-border.
- Uniform conditions for all euro payments
- Changed prices – during the following years, the prices on euro payments are expected to fall due to increased competition
- More efficient liquidity management – cash flows and liquidity planning can be improved by centralising payment functions
- Increased opportunities to automate payment flows

PREPARATIONS FOR YOUR COMPANY

For euro payments, an international bank account number (IBAN) is required, as well as a bank identifier code (BIC).

Checklist

If your company has not started preparing for SEPA, it is time to take steps. It is a good idea to go through the following:

1. Evaluate how SEPA will affect your company's payments in relation to transactions, procedures, administration, technology, business systems and day-to-day operations.
2. Evaluate the opportunities that SEPA offers in terms of reallocating and rationalising your company's payment flows.
3. Discuss SEPA and its effects on your IT environment with your company's business system providers.
4. Check that IBAN and BIC are included on your invoices.

5. Ensure that correct information on IBAN and BIC is registered for your company's suppliers and beneficiaries.

PAYMENTS CATEGORIES

The following payments categories are affected by SEPA:

Payments in euro

A euro is a clean payment order initiated by the payer. SEPA has a standardised set of business rules in terms of content and format, in which IBAN and BIC are requirements. According to the EPC, the execution period for this type of payment may be up to four business days. In the coming EU directive, this will be reduced to a maximum of two business days.

Direct debits in euro

SEPA encompasses direct debit payments in euro, that happen within an EMU country as well as cross-border within EU/EEA. They are payments initiated by the beneficiary. SEPA regulates the business rules and standards for payment processing between the payer, the beneficiary, and each party's bank.

International cards

SEPA has produced a framework for card transactions which give clear instructions for how card payments and cash withdrawals are to be processed across the entire SEPA area. The aim is that the same card should be used both abroad as well as domestically. Purely domestic cards will no longer exist. Cards must be equipped with a chip combined with a PIN code, and card terminals must be able to read the chip cards. This to achieve a high security level.

HANDELSBANKEN AND SEPA

At Handelsbanken we have been working with SEPA for a long while now. SEPA affects many areas of the Bank. To make the single euro payments market a reality, systems and procedures must be updated and improved, but above all, bank customers must be given information on the implications and impact of SEPA.

With SEPA's instruments for euro payments, no distinction is made between domestic and cross-border payments. Handelsbanken's harmonisation with SEPA and its consequent processing of your company's euro payments mean the following:

- If the payment order to the Bank contains the information required for processing according to SEPA rules, the Bank will execute the payment as a SEPA-adapted payment, i.e. at the best possible terms for the customer.
- SEPA's standardisation model for sending payments between the payer's and the beneficiary's bank requires communication in XML technology according to an ISO standard (ISO 20022).

MORE INFORMATION

If you would like to know more about SEPA and how it will affect your company, you are welcome to contact your local Handelsbanken branch. If necessary, your branch will put you in contact with the Bank's specialist advisers.

SEPA: FREQUENTLY ASKED QUESTIONS

[When will SEPA come into effect?](#)

It will be introduced in stages between January 2008 and January 2011.

[Which countries does SEPA apply to?](#)

The member states of the EU, plus Iceland, Liechtenstein, Norway and Switzerland.

[What will SEPA mean for my company?](#)

SEPA will mean that there will be a basis for more rational processing of euro payments in Europe. This basis consists of a uniform set of rules and a technical infrastructure.

The harmonisation work mainly affects the banking sector, but it will benefit end-customers in the form of simpler, cheaper payment services.

[How can my company prepare for SEPA?](#)

For a payment to qualify as a SEPA payment, there are certain requirements in terms of content. You will need to familiarise yourself with these requirements and ensure that your company's systems can fulfil them. This provided that both the sending and receiving banks are adapted to SEPA. If a transaction cannot be classified as a SEPA payment, it will not be processed according to the SEPA terms. Therefore it may be worth building control functions into your company's systems to verify that IBAN numbers etc. are correct.

[How can my company benefit from SEPA?](#)

In addition to the direct advantages, such as lower transaction costs and standardised content, SEPA can offer other opportunities. Your company should review how liquidity management and payments administration is organised, to evaluate the potential for rationalising your company's euro payments. Your company should also review its accounts structure and its banking relationships, to assess whether anything can be simplified.

[Will one euro account be enough for the whole of Europe?](#)

Euro payments will be processed on the same terms and using the same rules across the entire SEPA area. This will allow the use of a single account for euro payments within the whole area. However, the necessity of retaining local accounts may vary between countries and depend on the nature of the business. Initially, there may be legal, tax-related or business-related reasons for local accounts. Customer structure and payment behaviour may also affect the decision.

[Will my company still need cross-border EUR pooling after SEPA has come into effect?](#)

The need for pooling will probably remain, but as SEPA will give companies new opportunities to centralise their payment flows, the need will certainly diminish in time.

[Will a SEPA payment cost the same amount everywhere in Europe?](#)

Not by law – but market forces will probably ensure more uniform (and lower) pricing.

What will be the important factors when choosing a bank within SEPA?

Payments are becoming more standardised. There will be more focus on a bank's range of supplementary services for euro payments. A bank's ability to process all types of payments, not only SEPA-adapted euro payments, in a uniform manner may be vital. The technical requirements for keeping up with customers' process development (e.g. invoice management and payment matching) are also becoming more important. A bank's 'service level' – which often means its skilled and dedicated staff – can be a determining and decisive factor.

What about the EU countries that do not use the euro?

The EU rules and conditions that have been adopted through the PSD apply to payments in euro as well as local payments in all member state currencies. The SEPA rules apply only to euro payments, this means that there is no requirement for harmonisation of payments in other currencies with SEPA payment instruments. The infrastructure that banks are building up to provide SEPA-adapted payments can only process payments in euro.

Will my company continue to report on SEPA payments to the local authority (where applicable)?

Requirements vary from country to country. Unfortunately, the introduction of SEPA will not mean the end of reporting requirements to central banks etc.

Will my company be forced to use new formats, or will the Bank do the conversion?

According to the EPC, the recommended format for SEPA payments is XML, in accordance with ISO 20022. This is also the format in which SEPA-adapted payments are sent between banks. As it will be some time before all accounting and payment systems support the ISO 20022 standard, Handelsbanken will offer conversion from customers' current formats, provided that the payments contain all the necessary information.

DEFINITIONS

BIC

Bank Identifier Code. A unique code to identify a bank - is used when SWIFT messages are sent to or from banks.

EBA

Euro Banking Association. A joint bank organisation which handle clearing and settlement in euro.

EPC

European Payments Council. A European co-operation organisation for banks within SEPA.

IBAN

International Bank Account Number. A standardised account number structure for euro payments within the EU/EEA.

ISO 20022

A standard developed by the International Organization for Standardization [ISO]. "ISO 20022 – Universal Financial Industry Message" is a platform for developing standardised types of messages for the financial world.

PIN

Personal Identification Number. A personal code often consisting of four digits.

PSD

Payments Services Directive. An EU directive aimed at creating harmonised legal frameworks and terms for a single payments market. Covers payments in euro as well as local payments in all member state currencies. The directive shall be part of national law in November 2009 at the latest.

SEPA

Single Euro Payments Area. A project being run by banks in Europe, together with the EU and the European Central Bank, with the aim of harmonising the payments market in Europe.