

SEPA Migration Date -

Report on International Payments Summit

The European Parliament passed a resolution this week calling for the completion of the migration to SEPA by 31.12.2012 at the latest.

The background to this was discussed at International Payments Summit in London this week, by, for example, Wiebe Ruttenberg of the European Central Bank and Michael Thom of the European Commission.

Basically the authorities have run out of patience with the EPC process, and this impatience has been increased by the lack of any apparent positive impact of PSD on the terms and conditions experienced by customers.

Indeed, where corporates have started using SEPA Credit Transfer instead of legacy schemes for payroll, assuming that the employee would receive the money on the same terms and conditions as through a local scheme, this has backfired. Many banks (as we know in IBOS) still process SCT in their Foreign Payments application by converting them to MT103, and are taking a Crediting Charge by, in effect, deducting it from the proceeds, which is out of line with PSD.

The employee then sees a credit of their salary minus EUR10 on the statement, and receives a letter to say that EUR2880 were credited and a EUR10 charge debited within the same operation, so the ultimate credit was for EUR2870, which is the only statement entry that the customer will see (for their own convenience...for clarity.. to save paper... please refer to T&Cs sent by post 35 pages long on November 15th etc...)

When is a deduction not a deduction?

Secondly, a succession of representatives from user organisations (representing corporates, retailers, consumers and small businesses across Europe) stated that the arsenal of new payment schemes don't meet the needs of many customers, and would need major upgrading to be on a par with legacy schemes.

The EPC responded then with their annual upgrade schedule which is meant to promise a rolling improvement to the schemes.

So how do we make sense of all of this? What is the situation right now and how can we react to the imposition of an End Date?

1. PSD is already seen as having given countries too much autonomy in transposition and failed to deliver harmonisation, and a better user experience
2. A PSD-2 sequel is now being discussed
3. End-users and the political and banking regulators have formed a strong coalition to force a SEPA migration...
4. But the schemes to which the migration is supposed to occur are considered sub-standard and in need of considerable user-dictated improvements
5. Many banks have not really even started a SEPA conversion project in their core Domestic Payments systems; this is proven by the example of the charges on an incoming payroll payment where it is converted to MT103 and processed in the Foreign Payments application
6. It is not very long until 31.12.2012 in bank IT terms, given the scale and complexity of the conversion for banks
7. End-users want, as a minimum, no investment of time and effort at all if their experience of SEPA, in terms of functionality, workflow, timings and prices, is the same as they get from legacy schemes...
8. Meaning firstly that a deterioration is unacceptable...
9. And secondly that an exchange of like-for-like has to be delivered for free and in the same way as they might experience an annual upgrade to an existing legacy scheme

With these factors being the established basis of the conversation, IBOS participated in a panel session on how to ensure the ultimate success of SEPA.

With the stress on 'ultimate', Bob, our MD, said the measures of SEPA's success were:

1. The establishment of a single market in Euro payments
2. Meaning it is invisible in terms of workflow, data, pricing, and timing whether the payment is going across a national border or is a national payment within a member state
3. It encourages SMEs to trade cross-border with one another (a prime plank of the Lisbon Agenda)

The current prospect is that differences in PSD transposition maintain disparities of price and timing.

Reg 924/2009 maintains BoP reporting in certain cases, causing a disparity in workflow.

“Additional Optional Services” (which have to be registered with EPC) or “Value Added Services” (which don’t) aimed at assisting migration mean disparities in data (a) between national and cross-border payments (b) between national payments in different countries.

We also have the contrast between, on the one hand, the advice that SEPA is really taking off in Spain and Belgium, and, on the other, the complete absence of apparent change to market structure.

How can we reconcile those two sets of indicators?

If the EC’s definition of what has to happen by the end of 2012 is the “100% usage of SEPA instruments”, then this could turn out to be the 100% usage between banks and CSMs in the bank-to-bank and bank-to-infrastructure spaces, with very low usage by end-users i.e. in the customer-to-bank space.

In this market structure you would see a ring of translator and aggregator enterprises enabling end-users to retain legacy data formats and communications channels, and to maintain the impression that they are using PSD-compliant legacy schemes, whereas those schemes can be mapped into the SEPA schemes – with AOS and VAS complimenting the EPC’s core definitions – and it is messaging in the SEPA format that passes between banks and infrastructures (known in SEPA-speak by the acronym ‘CSM’).

Then 100% SEPA migration would be claimable – without any meaningful harmonisation of national payments markets other than that (a) all schemes are compatible with XML (b) all electronic payments are subject to PSD.

Bob asked the question as to whether the audience really believed that Euro-In banks would achieve any more by November 2010 in relation to the SEPA Core Direct Debit Scheme that enabling a claim order to be sent to their BIC, with initially the mandate data accompanying it.

That would be in contrast with meaningful reachability, by which one should normally understand strict rulebook compliance, robustness, capacity to process high volume in STP mode, and sending of all correct ancillary messages (R-messages) for the occurring error condition, correctly populated, and in XML.

The alternative ‘base case’ is that many banks will fail to do the processing compliantly and on time, will not handle size, and will send a lot of response messages by MT19n, or by fax, or e-mail, or letter.

This ‘base case’ scenario is supported by the actual experience of the SEPA Credit Transfer: many banks process them by conversion at the communications gateway (or even using an external service provider) into MT103 and dealing with them in their Foreign Payments processing application. Returns/rejects from those applications are presented as MT19n messages, and we know that many R-messages related to SEPA Credit Transfer are sent out by participants as MT19n – proof positive that the above scenario is correct.

If that is the pattern set so far, and the Direct Debit is a more complex scheme with more error conditions, then the potential results are clear: high volume of R-messages being sent in a variety of ways and not being picked up by the creditor’s bank. What happens when it is a reclaim and it misses the reclaim deadline because it is not received/processed at the same time it is sent?

If we collectively believe that this 'base case' could be the actual case, then the advice to ensure the ultimate success of SEPA would be to STOP now and test where we are and where we are really going.

Bob's view was that pushing ahead with an end date of 31.12.2012 would raise the risk of failure: something has to give.

When challenged as to what should happen next if the end date was confirmed as 31.12.2012 and given that many end-user groups are saying that the arsenal of schemes is not 'best in breed', Bob dealt first with the EC objective that the SEPA schemes must be better than all existing national schemes.

Bob said this was unachievable as a principle. Many actors in the market need to make changes in practices or data, and in many cases these changes merely enable the retention of the current status quo as regards functionality.

A change that adds no value but which costs time and effort to implement is by definition a deterioration of the customer experience. That will be the most common initial experience of SEPA for the end user. So we have to clear our minds of functional improvement as being a realistic initial objective of SEPA: the EU's main objective is 'all the same everywhere', and for them that does mean 'better', so the EU has itself made the objective of 'functional improvement' subsidiary. There is a clear choice between the two, you cannot have both, and the setting of an end date defines the choice the EU made.

Bob characterised the SEPA project as a massive complex Change Management project in which several major streams hardly exist, such as Communication, Stakeholder Management and Transition Planning. The basic organisation was wrong, in that implementation is in the hands of individual banks or national organisations: that makes divergence (including in the form of AOS or VAS) inevitable, most likely between one country and another.

An end date of 31.12.2012 could only be hit if the schemes were all frozen at their current versions, so that all parties had a known target to aim at. This would exclude the proposed new Direct Debit scheme with no reclaim period and all of the 2010, 2011 and 2012 scheduled scheme revisions.

This pathway would not fail to disappoint end users who would be asked to pay to move to schemes that were the same or worse than current ones. Instead there should be a guarantee of no functional deterioration and minimal cost for the initial phase.

The creation of AOS/VAS should be actively encouraged in order to define the add-ons needed in each market to the SEPA schemes in order to ensure no functional deterioration.

A ring of translators and aggregators (probably national infrastructures) would support the AOS/VAS needed in their community to immunise the end users from change, and to map end user data to bank-to-bank data, and thereby achieve the achievable – to get 100% usage of SEPA schemes in the space between translators and aggregators, banks and CSMs.

National environments would retain differences, but the SEPA schemes could be used without AOS/VAS for cross-border payments into/out of every country and within each country for basic payments. End users in each country could still use the AOS/VAS in order to experience the many special payment schemes that add value for them.

The big change regarding those 'schemes' is that they would henceforth be defined in terms of differentials in data and workflow as compared to the SEPA schemes, in terms of extra fields in ISO20022 and definitions of how they have to be filled and dealt with. Thus those 'schemes' would also be accessible to end users outside that country who were willing to populate the extra fields and implement the respective workflow, without 'compulsion or prohibition'.

Differences in timing and pricing would exist, but only within the confines of what was allowable under PSD.

2012 would then be a halfway house and even getting to that point is a big task, principally because the house is at the end of a different street from the one the SEPA Roadmap leads to currently.

The SEPA Roadmap leads down a street that does not ultimately lead to a successful SEPA, because it is High Risk and entrenches national differences.

The replacement street would be a much lower risk in the short term and not cause a deterioration for the end user. It does not deliver full SEPA by 2013, but at least getting to the half-way house would form a platform for the ultimate success of SEPA.

After 2013 and over time the SEPA schemes could be built up to include those best features of national schemes, by progressively incorporating the AOS/VAS defined to support initial migration into the SEPA schemes themselves.

Then that would be a winning European arsenal of schemes. In other words Festina Lente (Hasten Slowly) ... success in 2016 is better than failure in 2012, and Victoria Concordia Crescit (Victory Comes From Harmony)... we won't get anywhere collaboratively by pretending either side can win out of the negotiating positions that are currently being taken.

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