

# European Payment Landscape – UPDATE

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# Agenda

- SEPA
    - Products (SCT, SDD)
    - Current Status (Reachability, Migration, Volumes)
    - End Date Regulation
  - Infrastructures
    - EBA – European Banking Association
    - EACHA – European Automated Clearing House Association
    - Target 2
    - IPF – International Payments framework
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# SEPA

Single Euro Payments Area

## Products



- SEPA Credit Transfer
- SEPA Direct Debit

- ... SEPA Credit Transfer is the unified credit transfer format
  - ... live since 28.01.2008
  - ... uses XML-Standards (ISO20022)
  - ... use of IBAN & BIC is required
  - ... no technical limit for the possible amount of a SEPA Credit Transfer
  - ... customer information of up to 4x35 types must be forwarded to the beneficiary
  - ... cross border and national EUR payments
  - ... standard for electronic payments only
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# SEPA Direct Debit ...

- ... live since 01.11.2009
  - ... is a SEPA-wide direct debit product
  - ... two different types → Core & B2B
  - ... uses XML-Standards (ISO20022)
  - ... employs a creditor driven mandate flow
  - ... usage includes creditor-IDs, mandate references, handling times, types
  - ... additional features of Fixed amount SDD, AMI (Advance Mandate information), e-Mandate solution
  - ... will replace the existing direct debit systems within SEPA
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# Current Status



- Reachability
- Migration
- Volume

## Current Status - Reachability

SEPA Credit Transfer (March 2011):

- SCT: 4503 Banks (EPC)
- SCT reachability obligation is part of the end date regulation
- RBI: about 99% of SCT payments distributable

	SCT
<b>Austria</b>	715
<b>Czech Republic</b>	6
<b>Denmark</b>	109
<b>France</b>	262
<b>Germany</b>	1811
<b>Hungary</b>	16
<b>Italy</b>	687
<b>Netherlands</b>	43
<b>Slovakia</b>	8
<b>Slovenia</b>	21
<b>Spain</b>	177
<b>Switzerland</b>	141
<b>United Kingdom</b>	37

Source: EPC

**Full SCT reachability widely accomplished**

# Current Status - Reachability



SEPA Direct Debit (March 2011):

- SDD Core: 3.909 Banks (EPC)
- SDD B2B: 3.381 Banks (EPC9)

- EU Regulation 924/2009

SDD Core Reachability

- EURO-Area 01.11.2010
- Remaining SEPA 01.11.2014

	SDD Core*	SDD B2B*
<b>Austria</b>	98,7%	86,7%
<b>Czech Republic</b>	33,3%	16,7%
<b>Denmark</b>	89,0%	89,0%
<b>France</b>	87,0%	19,8%
<b>Germany</b>	99,4%	95,4%
<b>Hungary</b>	6,3%	6,3%
<b>Italy</b>	94,9%	91,3%
<b>Netherlands</b>	60,5%	20,9%
<b>Slovakia</b>	150,0%	25,0%
<b>Slovenia</b>	100,0%	57,1%
<b>Spain</b>	99,4%	78,5%
<b>Switzerland</b>	5,7%	2,8%
<b>United Kingdom</b>	54,1%	32,4%
<b>Total</b>	86,9%	75,2%

\*share with regards to SCT and Cheques Source: EPC

**SDD reachability in progress**

# Current Status

- Reachability
  - Migration
  - Volume
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# Migration



- SCT migration experiences
- SDD migration experiences

# SCT migration experiences

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# SCT Migration Experiences



- At the beginning main usage was cross border
- Migration within banks (based on available data)
  - Technical upgrading from current standard to xml, when SEPA criteria fulfilled
  - Does not encourage customer migration
- Migration within customers (based on available data)
  - No clear perceived benefits for customer
  - Waiting on end date regulation and SDD
- Majority of transactions within SEPA are already compatible
- XCT is going to be replaced by EBA in November 2011

**National migration follows cross-border migration**

# SDD migration experiences

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- Existing direct debit systems are working properly, but not cross border
- SEPA Direct Debit currently does not provide sufficient added value for many clients, organizational issues on corporate level open
- No pressure (End Date Regulation still not effective)
- Most important issues:
  - Migration of mandates
  - Detailed step-by-step processes of migration for customers – support from banks needed



**“Never change a winning Scheme?”**

# SDD Migration Experiences - How to replace existing formats?

Utilisation of national direct debit products:

	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2000</b>
<b>EU Total</b>	43,23%	42,40%	40,97%	34,14%
<b>EURO Countries</b>	47,12%	46,20%	44,48%	35,80%
<b>Austria</b>	46,90%	45,16%	42,12%	34,45%
<b>Germany</b>	58,92%	58,38%	56,76%	44,36%
<b>France</b>	34,90%	32,84%	31,71%	23,01%
<b>Netherlands</b>	45,94%	45,30%	45,39%	41,38%
<b>Hungary*</b>	10,49%	10,63%	12,10%	25,40%
<b>Italy</b>	27,22%	27,68%	25,07%	18,16%
<b>Poland</b>	1,68%	1,75%	1,72%	0,06%
<b>Romania</b>	2,30%	3,55%	5,60%	5,09%
<b>Slovakia**</b>	23,78%	32,41%	37,54%	22,43%
<b>Slovenia***</b>	21,92%	19,50%	19,03%	18,08%
<b>Spain</b>	72,50%	71,59%	71,48%	68,71%
<b>Czech Republic****</b>	n.a.	n.a.	39,22%	22,59%

\* Increase of Credit Transfers in 2005 / \*\*Data since 2006 / \*\*\*Data since 2004 / \*\*\*\*Data until 2004

Source: Blue Book (Share of DD in Cheques+CT+DD)

**The degree of DD utilisation is rather different**

- SDD-Core scheme is a creditor driven mandate flow:
  - Debtor authorizes creditor to send direct debits
  - No notification of debtor bank required
- Current standards foresee such notifications as mode of account protection:
  - Default setting → Account closed for all SDDs
  - Debtor can generally/individually accept SDDs
- Consequence for creditors:
  - Different procedures limit the general usability of SDD



**Customers expect unified processes**

# Experiences - Raiffeisen Bausparkasse GmbH



- General information phase / project start 2008 → early adopters
  - Adherence process as bank necessary
    - SDD processing similar to a corporate customer
  - IBAN/BIC conversion for approximately 2 million accounts
  - Design of new mandate form
  - Obtaining creditor ID
  - Informing Raiffeisen Bausparkasse's sales force
  - Project duration → 2 years

**Currently Raiffeisen Bausparkasse processes 1.5 - 2 million SDDs/month**

# Experiences - Raiffeisen Bausparkasse GmbH

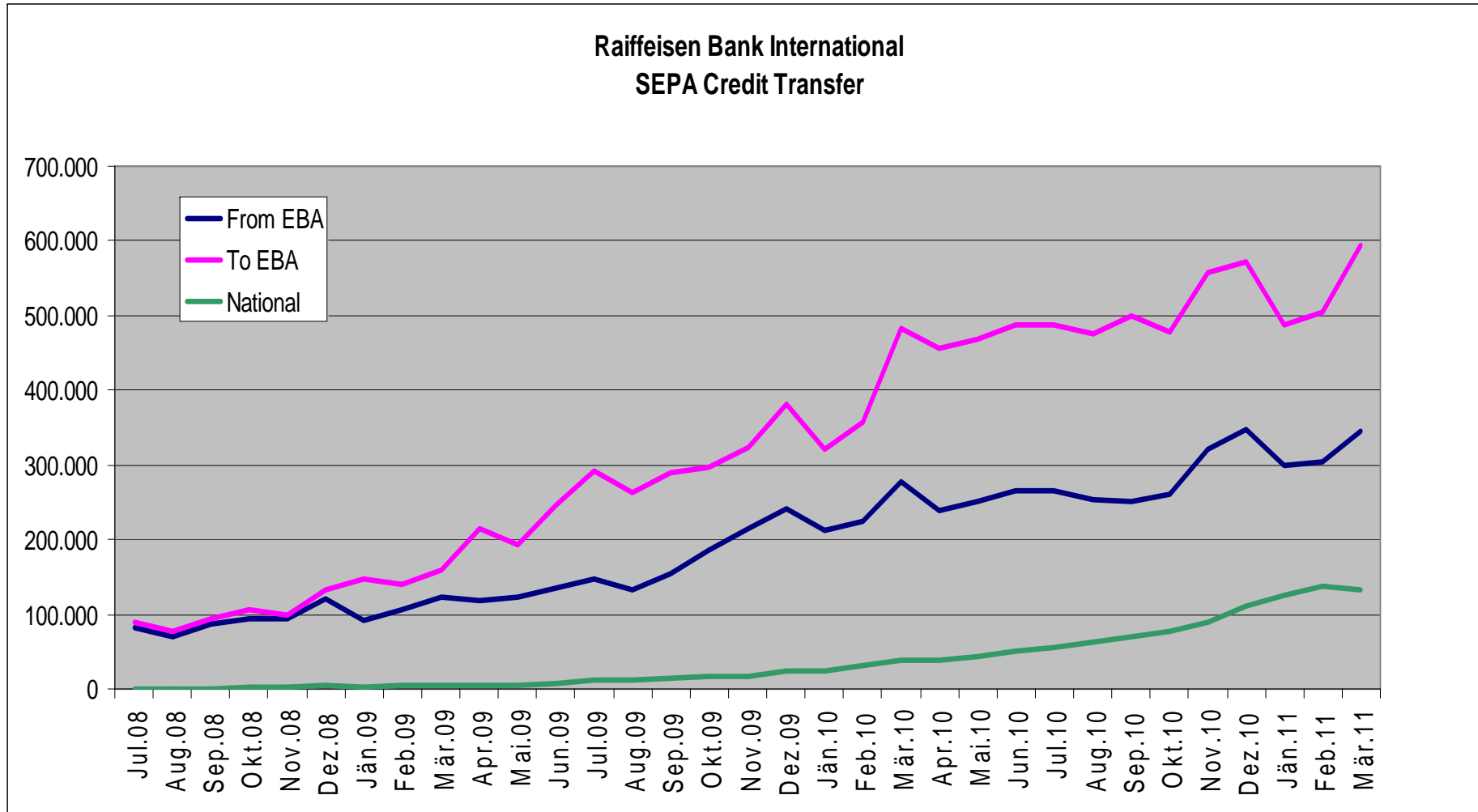


- Clarifying technical and legal details:
    - What can be used as mandate reference?
    - New field "signing date of mandate" needs to be added
    - Solution for reachability check for payment entry process
    - Procedure for parallel phase of legacy system and SDD
    - Solution for change from old mandate form to the new mandate form
    - Legal certainty for mandate migration in Austria
  - Organizational details:
    - Information of customers about new direct debit process
    - Handling of returns / rejects / reversals
    - Changeover process: step-by-step → 1. SDD, 2. SCT, 3. Payment Slips
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# Current Status

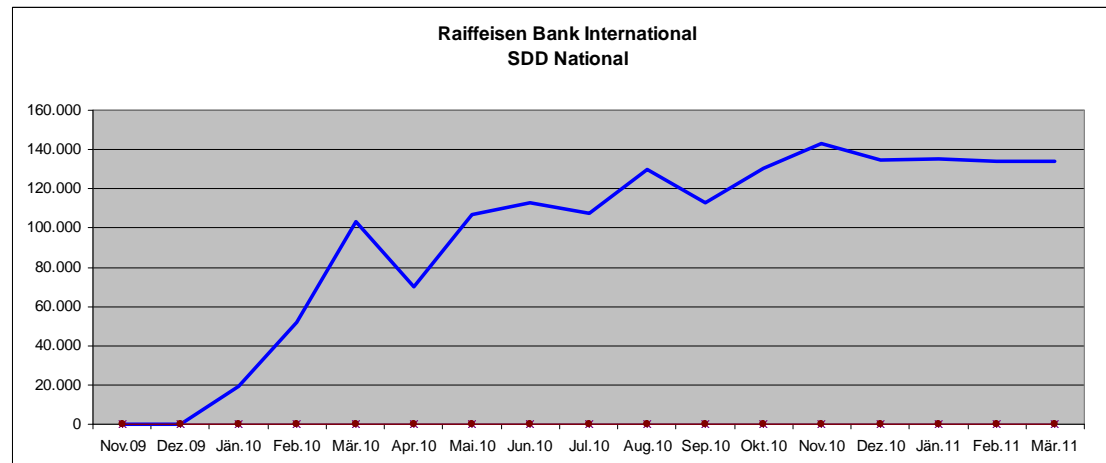
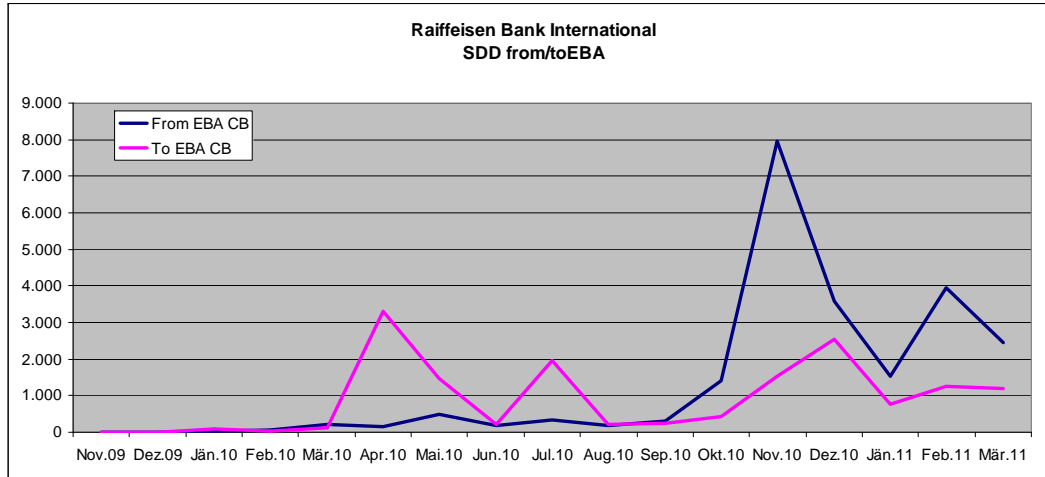
- Reachability
  - Migration
  - Volume
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# SCT Volume



**Status: AT 7,2%, EU 14,7%**

# SDD Volume



**Status: AT 3,3%, EU 0,7%**

# End date regulation



# SEPA End date regulation



- Regulation provided by the European Commission to set binding end dates to the SEPA products for all participants
- Current proposal under the Hungarian EU presidency:
  - Proposed end dates are February 1st, 2013 for SCT and February 1st, 2014 for SDD
  - Transition period for niche products
  - Setting only technical standards (ISO20022, use of IBAN/BIC)
  - No MIF per transaction – interchange fee open discussion
  - Focus on interoperability and reachability

**The end(-date) is near**

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# SEPA End date regulation

- Overview of timelines

Adoption of the Regulation	Reachability Inter-operability	End date for cross-border DD without MIF	End date for CT	End date for DD	Reachability in non-euro area	End date for CT niche products + conversion facilities to consumers by PSPs	End date for national DD without MIF + CT in non-euro area + interoperability in non-euro area + COM review	End date DD niche products + for PC at POS + message format for PSUs	End date for DD in non-euro area
Q3-Q4/2011	end-2011	1/11/2012	1/02/2013	1/02/2014	31/10/2014	1/08/2015	1/02/2016	1/08/2016	1/02/2017



**Establishing dates for SEPA migration**

# Infrastructures



- EBA
  - EACHA
  - TARGET 2
  - IPF - International Payments Framework
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# EBA



# XCT-Discontinuation

- EBA plans to discontinue XCT-service by end of 2011
- → Forced transition to SCT necessary
- SCT Reachability obligation
  - for EUR countries with SEPA end-date
  - for Non-EUR countries Feb. 2016
- Strengthens pressure on ensuring 100% SCT-reachability in SEPA!

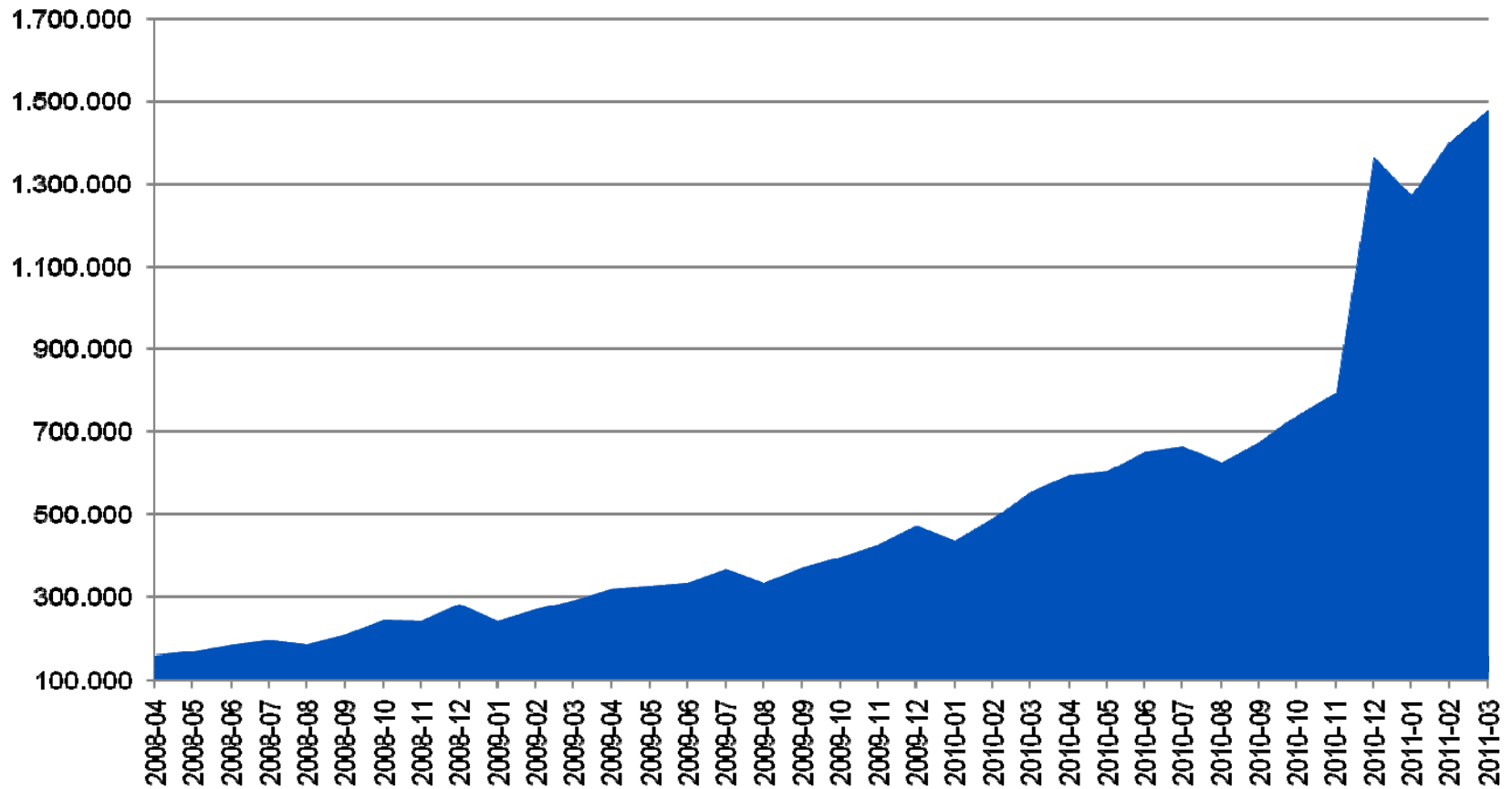


**Key factor: SCT Reachability**

# Evolution of SCT numbers



### STEP2 SCT Daily Average Payments



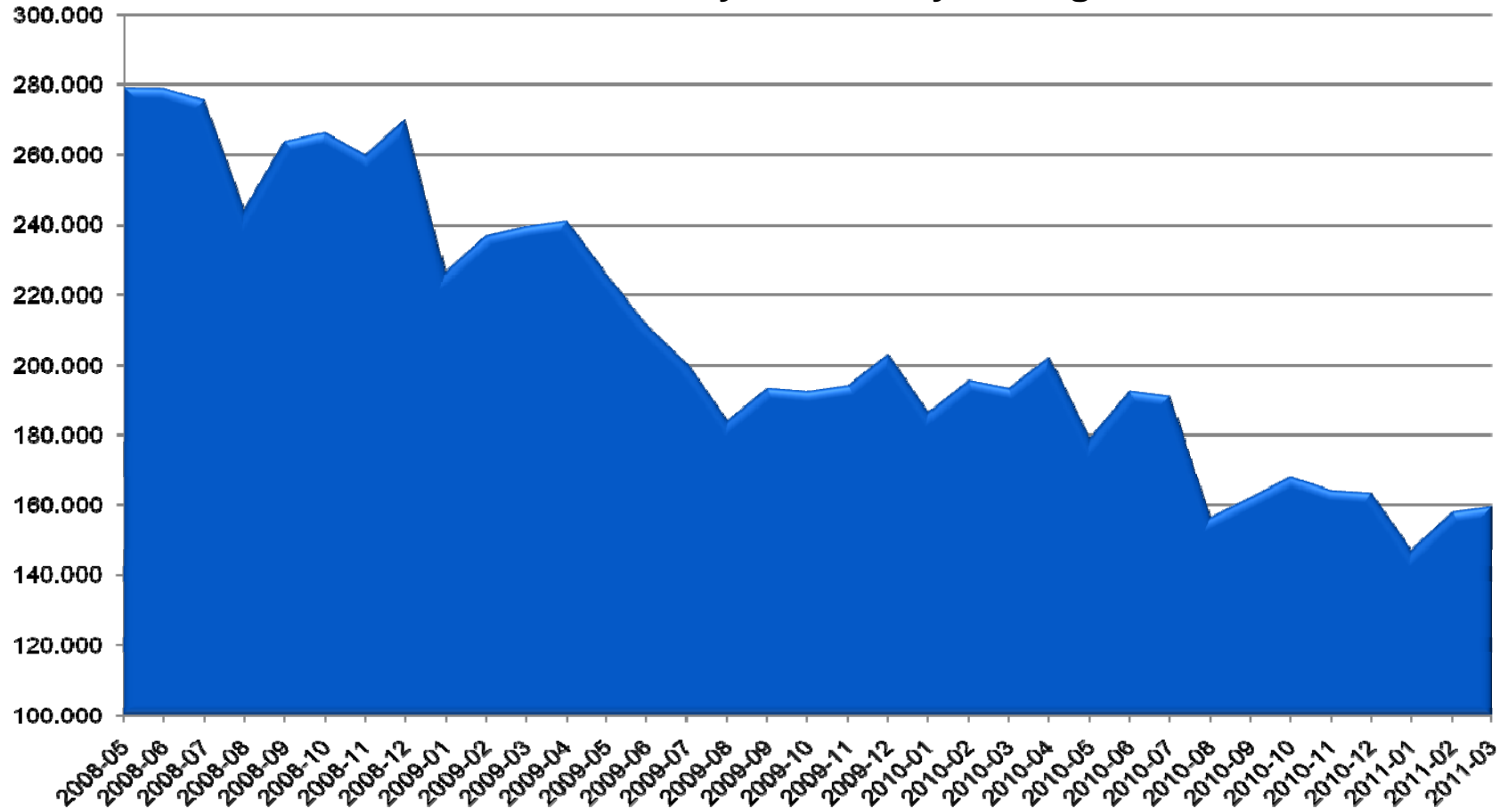
Source. EBA

**EBA SCT migration mountain**

# Evolution of XCT numbers



### STEP2 XCT Payments Daily Average



Source: EBA

**XCT- No way out?**

**EACHA**

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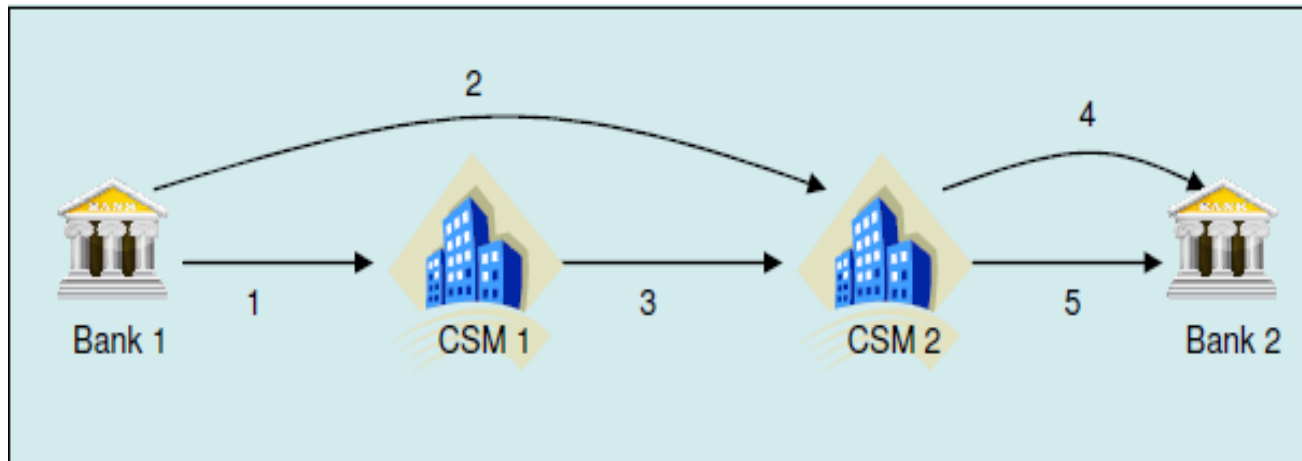
# EACHA approach on interoperability between CSMs



- EACHA = European Automated Clearing House Association
- 22 national and international ACH's – EBA is not member
- Interoperability Framework for infrastructures
- Examples:
  - German, Italian and Austrian central bank exchange SCTs among each others
  - Equens processes the domestic payments in Italy and the Netherlands and started to process the Polish SEPA payments
  - VocaLink operates the Swedish and Italian SEPA traffic

**Interoperability of multiple CSMs**

# EACHA approach on interoperability between CSMs



1. Bank1 sends Payments file to CSM1 for processing
  2. At Settlement time CSM1 will debit Bank1 and Credit CSM2 through TARGET2 with the value of transactions for Bank2
  3. CSM1 will send the Payment instructions to CSM2
  4. CSM2 will reconcile the Credit amount received in TARGET2 with the Payment files received from CSM1. Upon successful reconciliation, at Settlement time CSM2 will Credit Bank2 through Target2 with the funds received from CSM1
  5. CSM2 will send the Payments file to Bank2
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# TARGET 2



## TARGET 2

- Changeover for TARGET 2 to ISO 20022 XML-standard necessary?
- On evaluation since start of TARGET 2 in Nov.2007
- Participant survey of ECB 2010 showed low priority for change
- Long-term planning for XML-use in TARGET 2
- No concrete plans yet for changeover
- TARGET 2 transactions out of scope of SEPA enddate-regulation

**TARGET 2 on the long way to XML**

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# International Payments Framework



## The International Payments Framework

- provides rules, standards, operating procedures and guidelines to improve cross-border payments
- Based on ISO20022
- Currently 29 member organizations, thereof 14 banks worldwide; 2 American banks are live
- Currently EUR, USD and GBP live
- Receiving IPF member sets fees for payments the sending bank has to pay for a transaction into the target markets

**IPF - a new worldwide payments standard?**

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# Q&A

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In the wind of change,  
there are the ones  
who build wind mills  
and others who build  
walls.

Chinese Proverb

# Thank you very much for your attention!



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