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Single Euro Payments Area – SEPA:

Needs, Opportunities and Threats for Crafts and SMEs

1. Introduction

One of the most important lacking features to complete the European Internal Market in financial services is harmonisation of payment systems. The current state of affairs, with 27 different national systems, works as a barrier for the Internal Market and causes unnecessary additional costs for companies and consumers. Moreover, it reduces the growth potential and the economic welfare of Europe.

Even more importantly, the benefits of a single currency within the Euro Area cannot be reaped without workable and well functioning payment systems in place, which serves the whole Euro Area.

Therefore, UEAPME welcomed all initiatives from the European Commission, the financial services sector, the European Central Bank and other involved stakeholders to create a “Single Euro Payments Area – SEPA” as of the beginning of 2008. Europe’s SMEs see SEPA as an important step towards the completion of the Internal Market, but have warned several times that such a step has to be well prepared, must meet the practical needs of enterprises and provide – at least in the long run - positive incentives for all market participants.

The most important expectations of Crafts and SMEs as regards SEPA are:

- Cross-border payment services in general must become cheaper and more cost effective without increasing the costs for national payments in general. This must go beyond Regulation 2560/2001, which regulates the price for smaller amounts of cross-border payments independently from the real cost, stating that the price for cross-border payments must not increase the price for similar national payments. Most of Europe’s SMEs would not support a new system otherwise.
- SEPA must provide the same level and quality of services than the existing national systems as regards credit and debt transfers as well as payment cards. This includes features like security, user friendliness, etc.
- SEPA users should get basic service level on basic price and there should open competition for extra services and the choice between different level of services.

This position paper reflects the current debate on the introduction of SEPA from an SME point of view and comments on SMEs' needs and expectations, as well as on possible threats for SME as regards the introduction of SEPA.

2. Institutional set-up

In order to make SEPA a reality as of 2008, the European Commission urged the financial services sector to develop such a system in time – otherwise it would have come up with regulatory proposals for a European Payments System. To fulfil the requests from the Commission, the European Banking Sector founded in 2002 the **European Payment Council (EPC)** with the aim to elaborate common standards and instruments to make SEPA a reality. In the meantime, the EPC agreed on common features for credit and debt transfers and is close to a final agreement on payment cards.

The European Commission elaborated in parallel and presented in November 2005 a **“Payment Service Directive (PSD)”**, which should provide the necessary legislation for SEPA and at the same time ensure a liberalisation of the European Market for payment services. The PSD is both a precondition for SEPA, especially as regards debt transfers, and an attempt to open the payment services market to operators other than banks.

This **twofold approach of the PSD** created a serious conflict with the banking sector (EPC), which needs the PSD to implement SEPA at standards elaborated by the EPC, but at the same time wants to avoid (unfair) competition in the payment services market from other providers, which do not have to fulfil the same restrictive regulations banks have to.

Furthermore, the proposed PSD requires some features for a SEPA, which are not actually fulfilled by the standards elaborated by the EPC. This is especially true for the timeliness of transfers, the recall for debt transfers, the obligations of card holders, etc.

Independently from the adaptation and implementation of the PSD, banks will start SEPA at the beginning of 2008. The original aim to achieve a full transformation from the national to the European Payments system until the end of 2010 seems more and more unrealistic and many stakeholders expect a migration period of 5 years or even more.

The starting point for this migration, the existing national payment systems, differ significantly as regards transaction time, additional optional services and card payments. Therefore, each Member State is now working on its own migration plans, which will define also the features of outmost importance for SME users, like transaction times, remittance information and interfaces between existing systems and SEPA during the migration phase.

3. SMEs' needs and expectations

The existing national payment systems developed over time and not always fully transparent as regards costs and pricing. In many countries, **cross-subsidising between different services from a single provider** is still the rule than the exception. This results in **quite significant differences between prices for the same service in different countries and for different clients**.

SEPA should increase the transparency of costs and prices for payment services and more competition would be to the benefit of all costumers of such services. Such an **unwinding of previous cross-subsidising will change the price for different services in both ways**, but such adaptations could be accepted, if the overall costs for bank services will decrease.

SMEs are aware that higher standards and better services for users may increase prices, but it must be stressed that not all SME users need the highest standard of services. Therefore, starting from a certain basic level service (i.e. T+1, remittance information), SMEs expect a **certain degree of differentiation in the quality and prices for services** such as the express transfers and other additional features.

E-invoicing is increasingly used by companies in Europe and some national payment systems **support e-invoicing with electronic payment programmes**, which allow the integration of payments into book-keeping programmes. Such features need structured remittance information provided by a payment system, which are not foreseen in the current standards elaborated by the EPC. As long as SEPA does not provide such features and does not support e-invoicing in future, SMEs used to or expecting such standards will not support the change over from the old national systems, which go already beyond SEPA.

UEAPME will only be able to support the concrete introduction of SEPA, if there is at balance a clear advantage for the average SME in the Euro Area and if SEPA provides features which meet the needs of small enterprises, even when they mainly operate at local or regional market level.

4. Threats for SMEs

Most of Europe's SMEs, especially small and micro enterprises, act mainly on local and regional markets and typically process only a few cross-border payments. These companies are accustomed to their national payment systems and will not opt for SEPA, if SEPA will end-up providing better and cheaper services for cross-border payments but **increasing the costs for purely national payments**. The banking sector must make sure that SEPA offers as well some added value to costumers that act only or mainly on national level.

Some features for payments services, like the **extension of the period for re-calling debt transfers** or missing **possibility to send structured remittance information with transfers**, will make SEPA less attractive than the existing payment systems. Such steps back must be avoided, if SMEs are expected to opt voluntarily for SEPA.

As regards **payment cards SMEs suffer from very little competition between operators and terminal providers and technical assistance**. SEPA will only be accepted by the market, if it contributes to more competition, better offers and lower prices for these services. If SEPA is to create a European monopoly for card operators, the regulators and competition authorities should take all the necessary steps to avoid market restrictions and overpricing.

5. Conclusions and Recommendations

The main concerns of UEAPME on the current situation as regards the introduction of SEPA in 2008 are:

- Due to the delay of the Payment Service Directive in the Council and the European Parliament, SEPA will start fully at the beginning of 2008. There will be a delay of about 18 months for debit transfers.
- Member State Governments seem to hesitate about using the new system as from its start. Therefore, we doubt that there will be enough user of the new system as from the beginning to justify the necessary investments.
- The announced features of SEPA do not meet all needs of SMEs. SMEs, especially in the most advanced countries, will not accept deterioration of existing services. Therefore, as

long SEPA is not able to guarantee such additional optional services the full migration to SEPA is not justified and should not happen.

- Additional measures to protect consumers, such as the extension of the re-call time for debt transfers or lowering the limits for self-liability for private costumers in case of a misuse of payment cards, will increase the costs for all users.
- The current features of SEPA do not seem to support e-invoicing systems and therefore fail to help SMEs to reap the possible benefits from it.

Against this background, UEAPME sees no possibility to recommend the use of SEPA without objections and recommends to the different stakeholders:

- all national Craft and SME association should try to get involved into the current work on national migration plans for SEPA;
- the national central banks and involved government bodies should involve SME associations into their work on national migration plans;
- to speed up the decision making process in the Council and the Parliament;
- to improve the already existing SEPA standards in order to support the necessary additional optional services and to make the new system attractive for SMEs;
- to ensure the necessary regulatory power in order to avoid the emergence of any monopolistic structures, especially in the field of card payments (hardware, acquiring banks, system operators);
- to establish a competitive environment, which ensures that the implementations costs will not be transferred to small business clients.
- UEAPME supports the CAST project (Corporate Actions an Standards) launch by EACT (European Association of Corporate Treasurers), which aims to establish common European standards for e-invoicing, remittance information and other additional optional services.