

EPC Roadmap 2004-2010

Introduction

This Roadmap has been developed for the European Payments Council (EPC) and its communities to provide a description of the way forward for delivery of the Single Euro Payments Area (SEPA) programme.

Following a review of the background to the EPC and its activities, it provides a refined definition and scope for SEPA, building on the original 2002 vision, and presents the key deliverables and priorities for EPC in the period ahead. A timeline is provided, supported by clear objectives for the six areas of focus represented by the current EPC Working and Support Groups,

four responsible for payment instruments and two for supporting the areas of standards and legal respectively.

The final section reviews the role of stakeholders in adopting and implementing the SEPA and the pan-European payment instruments that will be delivered. This Roadmap is a 'living' document and will evolve. It will also form the basis for other communication presentations and more detailed descriptions tailored for specific audiences.

1. Roadmap Objectives

The EPC's SEPA Roadmap 2004-2010 has been revised to take into account not only the level of progress achieved to date but also the ECB Governing Council's vision, recent political and regulatory developments, as well as experiences in the period since the EPC was established. The objectives have been updated accordingly:

1. To reaffirm the vision set out in the 2002 White Paper 'Euroland, our Single Payment Area' and in the EPC Charter,
2. To clarify the definition and focus of SEPA,
3. To establish the EPC's priorities and to identify the associated deliverables that will be required for the realisation of SEPA,
4. To put in place an industry action plan and timetable with milestones for the defined deliverables,
5. To reinforce cooperation between banks and banking communities in relation to the adoption and implementation of SEPA payment instruments,
6. To mobilise other players and stakeholders to achieve their buy-in and commitment to SEPA objectives,
7. To provide a toolkit for communication.

2. Background

The introduction of Economic and Monetary Union and the euro have set the foundations for the development of an integrated European market for goods and services. From a political and regulatory perspective the goal is the creation of a Single Market underpinned by a Single Euro Payments Area.

In 2002 a workshop was held to consider ways of making SEPA a reality, the conclusions of which were consolidated into the White Paper 'Euroland: our Single Payments Area'. The EPC was subsequently established in June 2002 to

facilitate the development and implementation of SEPA in line with the industry vision and the associated Roadmap as laid out in the White Paper.

At the end of 2004 the EPC undertook a review of progress towards SEPA and whether the EPC goals remained in line with industry and regulators' expectations. A number of factors, including strong messages originating from the ECB and the Eurosystem, have led to an upgrade of this plan as expressed in the Roadmap 2004 - 2010.

2.1 Summary of the 2002 SEPA Workshop and White Paper

The workshop referred to above took place in Brussels between 25 and 26 March 2002, attended by 42 banks, the Euro Banking Association and the three European Credit Sectors Associations (ECSAs) namely the EACB, EBF and ESBG, representing all geographic areas and all types of institutions (co-operative, commercial and savings banks) to consider how the European Union could be transformed into a Single Euro Payments Area. A high degree of consensus was reached on a number of issues, with recommendations being consolidated into a White Paper entitled, "Euroland: Our Single Payments Area!" issued to workshop participants in May 2002.

The White Paper articulated the rationale and commitment to industry action, which remains as valid today as when it was first

published. It pointed out the need for convergence between domestic and cross-border payments in euro and created an emerging common vision of SEPA, which has been broadly accepted and understood.

The White Paper made recommendations in relation to Customer & Business Requirements, Straight-Through-Processing (STP), Infrastructure, Cards and Cash. It identified the payment instruments required to support SEPA and the need for a Pan-European Automated Clearing House (PE-ACH) framework. It also proposed an over-arching governance structure, which became the European Payments Council.

2.2 Establishment of the European Payments Council

The European Payments Council (EPC) is now the decision-making and coordination body of the European banking industry in relation to payments. The declared purpose of the EPC is to support and promote the creation of SEPA.

The EPC defines common positions for core payment services within a competitive market place, provides strategic guidance for standardisation, formulates best practices, and supports and monitors implementation of decisions taken. This is done in such a way as banks can maintain self-regulation and meet regulators' and

stakeholders' expectations as efficiently as possible.

The EPC underwent both re-structuring and expansion in the second half of 2004. It now consists of 64 Members, composed of banks and banking associations. It and its constituent bodies and working groups meet on a regular basis and are responsible for an ambitious set of deliverables. Over 250 professionals are engaged in the work programme of the EPC from 27 countries and representing all sizes and sectors of credit institutions across the market.

2.3 The EPC and the Banking Industry's Record to Date

Since its inception the EPC, in conjunction with the banking industry, has made some notable progress towards the creation of SEPA, formulating and implementing a number of resolutions and recommendations as well as working towards establishing a new, more integrated and co-ordinated, governance model.

For example, within its first nine months the EPC implemented Credeuro and the Interbank Convention on Payments (ICP), with a high penetration of IBAN and BIC for 'cross-border' intra-EU payments impacted by Regulation 2560/2001. The first PE-ACH operator (EBA STEP2) became operational in July 2003. A set of Cards and Cash-related recommendations is now being implemented, recognising the

key importance of these instruments, and Plenary has also approved a resolution on the use of payment alternatives to cross-border cheques. EPC Members have indicated their clear commitment to create a Pan-European Direct Debit (PEDD) scheme, endorsing three PEDD-related resolutions at the June 2004 Plenary.

With completion of the EPC Charter signing process in June 2004, the EPC's governance framework was formalised, with the Plenary as the decision-making body. A Cooperation Model has been established with the ECB (Eurosystem) and the European Commission, with the EPC now identified as the interlocutor for the European payments industry, supported by the three ECSAs.

2.4 Factors driving an upgrade to the Roadmap

The experience of the EPC since its establishment in 2002 has been one of broad success against the original objectives. But it has encountered a steep learning curve and has seen differing perceptions of SEPA emerging among its membership community. The Roadmap defined for 2002-2010 in the original White Paper was clearly ambitious, and there have been slippages against the milestones then defined. There have also been significant recent political and regulatory changes within Europe, such as the expansion of the EU from 15 to 25 Member States.

A Directive on a New Legal Framework for Payments in the Internal Market is in the course of development. It is seeking to establish an open and competitive playing field, incorporating rules for fair and proportionate consumer protection coupled with maximum harmonisation of the legislative framework for payments, and it is likely to impose new obligations on payment service providers that need to be taken into account within the SEPA Roadmap.

At the same time, regulatory actions such as Directive 5/1997 and Regulation 2560/2001 have proved to be blunt instruments, whereas it is strongly held that the banking industry could develop more effective approaches on the basis of self-regulation.

The need for a sharper definition of SEPA going forward was evident. Uncertainty needed to be dispelled concerning the geographic focus of SEPA, in particular the relative emphasis on the eurozone (EU12) or a wider definition (EU25 + 4 EFTA).

There has been a clear need on the part of the EPC to create more focus on its real deliverables over the next 24 months to create strong forward momentum. This required a review of current work in progress to ensure alignment with priorities. It is also important to ensure clarity of roles and responsibilities for all players engaged in SEPA, and focus the resources of banks and their associations towards implementation.

2.5 The ECB's Vision of SEPA

Over the past five years the ECB has issued a number of reports¹ regarding the establishment of SEPA. More recently, in September 2004 Gertrude Tumpel-Gugerell, Member of the Executive Board of the ECB, delivered a speech entitled, "Time to act: clear objectives and a convincing roadmap for the Single Euro Payments Area" to the EPC Coordination Committee Members at the EPC strategic offsite meeting.

This set out the ECB's expectations and vision of SEPA, views that were reiterated in other conference presentations and in the ECB's Third Progress Report on Retail Payments approved by the Governing Council and issued in December 2004. This outlined a number of delivery targets and invited the EPC "to reconfirm its commitment to the SEPA White Paper and to present a convincing project plan with realistic milestones".

The ECB report states, "a real SEPA will be achieved [for citizens in the euro area] when they can make payments throughout the whole area from a single bank account, using a single set of payment instruments, as easily and safely as in the national context today". It is seeking delivery of a "SEPA for citizens" by 2008, with cross-border and national use of pan-European instruments such as Credeuro (using IBAN), Prieuro (a priority payment scheme), Pan-European Direct Debit (PEDD) and Cards.

More specifically, the ECB and the Eurosystem are looking for Credeuro and the associated ICP to "become the compulsory minimum standard" for Regulation-compliant retail payments (i.e. currently up to €12,500) by January 2006, whilst "euro area citizens should have

Credeuro and Prieuro as optional standards for national credit transfers from 1 January 2008".

The ECB believes that a PEDD service should be made available as an option for national payments by 1 January 2008 and for euro-area wide use by 2010. From a Cards perspective, "Interoperability among card schemes will need to be achieved so that cardholders who request it will be able to use their cards in the same way nationally and within the SEPA well in advance of the 2010 deadline".

It adds that by 2010 the transformation of infrastructures should be fully underway, either by the conversion of national infrastructures into pan-European infrastructures (i.e. such that there are no-longer parallel domestic and cross-border systems), or by their elimination as several PE-ACH operators gradually absorb payment volumes across Europe.

The Eurosystem supports the PE-ACH concept and envisages completion of a SEPA for infrastructure (i.e. a consolidation of market providers) with a target date of 2010. Thus, between now and then, the expectation is that banks, as users or as shareholders of the existing systems, will choose either to "close the system and to move to another infrastructure or to transform proven and efficient national arrangements into a PE-ACH-compliant system".

This updated Roadmap is in large part the EPC response to these high-level ECB aspirations.

¹ Improving cross-border retail payment services – The Eurosystem's view, September 1999

Improving cross-border retail payment services – Progress Report, September 2000

Towards an integrated infrastructure for credit transfers in euro, November 2001

Towards a Single Euro Payments Area – (2nd) Progress report, June 2003

3. EPC's SEPA Vision, Definition and Focus

Based on the foregoing background, the remaining sections of this paper set out the provisions of the revised Roadmap. In this section, the key objectives of the Roadmap are clearly stated, so as to reaffirm the

EPC's vision. It also clarifies the definition and focus of SEPA in terms of geographic coverage.

3.1 EPC's SEPA Vision Statement

The vision agreed at the March 2002 SEPA Workshop and subsequently documented in the White Paper remains unchanged:

"We, the European banks and Credit Sector Associations,

- Share the common vision that Euroland payments are domestic payments,
- Join forces to implement this vision for the benefit of European customers, industry and banks,
- And accordingly, launch the initiative 'Euroland - Our Single Payment Area'¹.

This forms the foundation for setting the EPC's objectives, supported by the European banking community: namely the creation of SEPA by 2010, with all payments treated as domestic as far as speed, security, convenience and cost are concerned.

¹ The White Paper "Euroland: Our Single Payment Area" of 42 European banks and the 3 Credit Sector Associations EACB, ESBG, FBE – and EBA, Brussels, March 2002, and Article 1 EPC Charter.

3.2 EPC's Definition of SEPA

There has been a need for clarification within the European banking community concerning what constitutes SEPA. Following debate at the EPC Coordination Committee strategic offsite meeting an updated definition emerged, which was endorsed by Plenary in December 2004:

“SEPA will be the area where citizens, companies and other economic actors will be able to make and receive payments in euro, within Europe¹, whether between or within national boundaries under the same basic conditions, rights and obligations, regardless of their location.”

¹ Europe is currently defined as consisting of the EU 25 Member States + Iceland, Norway, Lichtenstein and Switzerland.

3.3 Focus of the Roadmap

Whilst the SEPA definition refers to Europe in its widest sense, SEPA will be delivered as a priority within the eurozone. Within Europe, outside the eurozone, there will be opportunities to participate in euro payment systems, and communities will be able to adopt SEPA standards and practices to contribute to the Single Market for payment services.

The EPC key deliverables are driven by the Roadmap objectives and SEPA vision. Thus the focus is on delivering effective pan-European payment instruments, facilitated by the development of a SEPA scheme framework, and ultimately their adoption and implementation.

3.4 Primary and Complementary Deliverables

Primary Deliverables

The EPC's primary focus is on delivering SEPA payment schemes for credit transfers, direct debits and a framework for debit (and account-linked) cards.

These instruments will create a set of core and fully fit-for-purpose pan-European payment instruments to be provided by banks to their consumer and corporate customers.

Secondly, the PE-ACH framework should be enhanced, so as to separate the governance and management of the SEPA payment schemes/frameworks

from their operation by service providers and infrastructures under these common schemes/frameworks.

Thirdly, the EPC community will continue to implement existing EPC Resolutions.

Complementary Deliverables

The EPC will continue its work on cash and other card issues such as fraud prevention. There will also be workstreams examining opportunities for cooperation in both e-payments for web retailers and mobile payments, as covered in more detail below.

3.5 SEPA Scheme Framework Definition

The decision has been made to separate "scheme" (or "framework") from "infrastructure". The PE-ACH framework¹ was agreed in 2003 regarding the governing principles for infrastructure, and the EPC has now developed a vision for the schemes and frameworks to underpin the SEPA payment instruments.

Thus, a SEPA payment scheme/framework can be defined as a common set of rules and practices for the provision and operation of a SEPA payment instrument agreed at interbank level in a competitive environment. As such it could include:

- The scheme purpose, objectives and definition,
- The operational model (a high level description of the architecture and flow),
- Business and operational rules, covering e.g. the processing cycle, end-to-end data set and standards, scheme enablers (such as reachability, performance standards, connectivity, security and resilience),
- Market practices including customer processes, as appropriate,
- Interbank relations such as costing principles and practices, and liability and risk management procedures,
- Legal structure and documentation, and contractual arrangements,
- Ownership and governance arrangements.

¹ In January 2003 EPC Plenary endorsed the definition of PE-ACH as: "A business platform for the provision of euro retail payment instruments and basic related services, made up of governance rules and payments practices and supported by the necessary technical platform(s)."

SEPA payment schemes/frameworks should be under the governance of a multi-scheme or a single scheme not-for-profit bank-owned vehicle to be further defined. Such vehicle(s) should be open to all banks and would have the role of safeguarding intellectual property and providing rule-making and change management procedures.

An operator is defined as a service provider processing the interbank elements of a SEPA payment scheme/framework. Whilst there is one scheme/framework, there may be multiple operators all complying with a common set of scheme rules. For example, existing international or domestic card schemes would be

positioned here as potential service providers under an over-arching SEPA framework, as could an existing ACH infrastructure, in relation to a SEPA payment scheme for credit transfers or direct debits.

As agreed at the December 2004 Plenary, the concept of 'SEPA payment scheme' from a cards perspective is replaced by 'SEPA framework', in recognition of the particular meaning of a "scheme" in the cards industry and so as to avoid ambiguity and confusion. The EPC Cards Working Group will make recommendations as to the content of the SEPA framework for adoption by the EPC Plenary in due course.

3.6 Adoption and Implementation

The EPC is committed to self-regulation within the banking industry whilst actively cooperating with regulators. It has responsibility for the development and delivery of compelling SEPA payment schemes, capable of attracting critical mass. It will then support and monitor progress.

The launch and implementation of SEPA payment schemes will be, firstly, a decision of the EPC and its banking communities to deploy the basic scheme enablers (e.g. reachability), and secondly, the decision of banks individually to offer SEPA payment services to their customers.

The adoption of SEPA schemes at national level to complement or replace existing instruments is a decision for the national communities involved, reflecting customer demand and behaviour.

Within the PE-ACH framework, the likely consolidation of operators (national Automated Clearing Houses or their equivalent) is a decision for the community of users and/or shareholders of existing or new infrastructures.

3.7 EPC's SEPA Timeline

The EPC has drawn up a timeline (shown overleaf) based upon three deliverable phases; firstly there is the scheme design and preparation stage, followed by implementation and deployment, which leads into a transitional period in which there is co-existence of national and pan-European schemes and gradual adoption of the latter.

Within each phase there are a number of activities running in parallel, such as design and specification, programme management, lobbying, monitoring and support. Dependent upon the activity in question, responsibility for delivery may lie with a number of industry stakeholders: the EPC itself but also individual banks, national communities and their associations and the regulators.

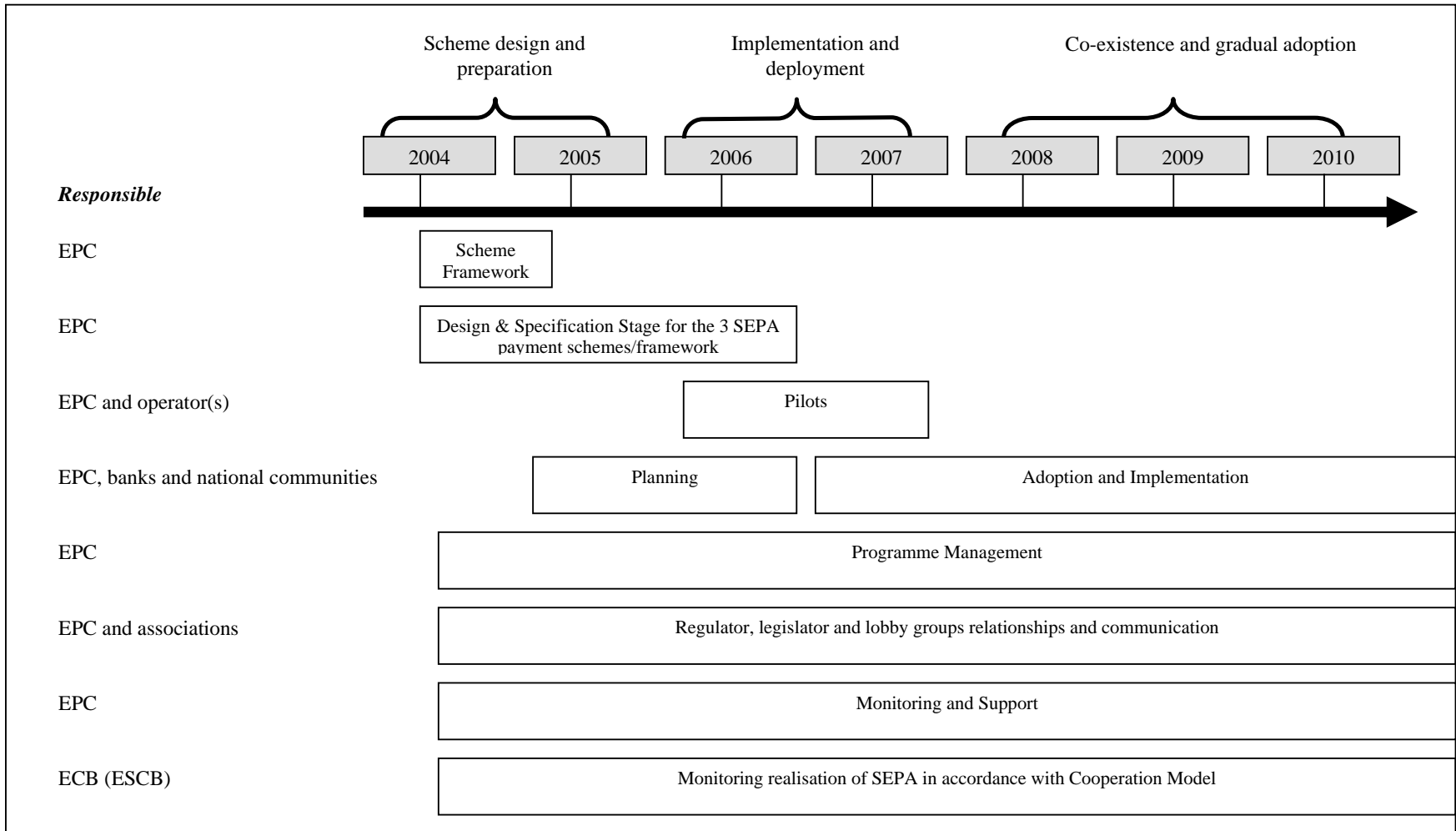
In essence there are two stages of SEPA from the point of view of the customer experience. In the first stage, following the deployment of the SEPA payment

instruments, customers may use them for both their cross-border (SEPA) and domestic payment needs. Since domestic instruments remain fully available, the banking system will maintain parallel infrastructures for SEPA and local payment instruments but this will not be apparent to customers using the pan-European payment services. In the second stage, domestic payment volumes are gradually migrated to the SEPA payment instruments.

In order to accomplish the ambitious deliverables described above, the EPC work programme has been restructured under four Payment Instrument Working Groups¹ (PIWGs) and two Support Groups², each of which has responsibility for delivering the six workstreams underpinning the SEPA programme and making recommendations to EPC Plenary for subsequent decision and implementation.

¹ The four PIWGs are: Electronic Credit Transfers WG, Electronic Direct Debit WG, Cards WG and Cash WG.

² The two Support Groups are: Operations, Infrastructure & Technology Standards SG and Legal SG.



4. Stakeholders' Roles in Adoption and Implementation

Stakeholders are defined as banks (and their associations and infrastructures), their customers and regulators as well as the EPC itself.

4.1 Role of Banks

Banks as EPC Members and as members of European and national banking communities are asked to support the SEPA vision and scope. Consequently they will be required to contribute to the EPC deliverables at EPC and at national level, by planning and preparing for change in 2005. All this calls for timely decision-making regarding mobilisation and execution.

Banks will need to implement and monitor progress at bank and national community level. This will involve giving timely guidance to their associations, payment

scheme organisations and infrastructures. Constructive engagement with customers, consumer and lobby groups, governments and other stakeholders, supported by appropriate communication programmes, will be required.

Banks will need to support the establishment of national SEPA implementation organisations in 2005, either adapting existing programme management structures or creating new ones.

4.2 Role of European and National Banking and Payment Associations

European and national banking and payment associations are asked to support, and to actively promote within their constituencies, the SEPA vision and scope. They will no doubt wish to support the deliverables and their implementation with timely planning and preparation during 2005.

Engagement with National Central Banks, plus European and national lobby groups (consumers, merchants, SMEs, corporates) and governments, will also be required. During 2005 associations should promote the proposition that European and national

public authorities (and their agencies) should become the "early adopters" of pan-European payment instruments.

In 2005, the creation or adaptation of an appropriate national SEPA governance and implementation plan and organisation for each community is needed, within a clear 'ownership' group and with oversight from a leadership group at senior (board) level.

4.3 Role of Payment Schemes and Infrastructures

Payment schemes and infrastructures are asked to plan and prepare for the SEPA future in 2005, reconsidering their positioning in the new SEPA environment

as guided by stakeholders. They will also be expected to adopt SEPA instruments and standards at a pace determined by stakeholders.

4.4 Role of European System of Central Banks (ESCB)

The European System of Central Banks (ESCB) is asked to support the EPC with a 'Euroland' view towards the banking industry, governments and public authorities, the EC and lobby groups. Support for the start-up of national SEPA implementation plans and organisations in 2005 should be provided. Also, during 2005, the ESCB should promote the proposition that European and national public authorities (and their agencies) should become "early adopters" of pan-European payment instruments.

More generally, there needs to be alignment within the Eurosystem in 2005. The ESCB also has a role in providing research, communication and moral/peer pressure.

Finally, TARGET2 should be delivered as an essential SEPA platform in 2007.

4.5 Role of Public Authorities

Public authorities are asked to provide legislative and regulatory support to SEPA as well as to encourage implementation through dialogue and communication. As 'buyers' of payment services they have a role as "early

adopters" in implementing pan-European payment schemes wherever appropriate. Alignment of competition authorities is needed to ensure a seamless approach.

4.6 Role of Users of Payment Services

Users of payment services (including corporates, merchants, SMEs, public authorities and consumers) should be convinced to support SEPA by their financial service suppliers. There is potential for the creation of constructive customer partnerships with financial

institutions to promote adoption of the pan-European instruments. Users should migrate step by step to, and/or adopt, new payment instruments as they become available and become involved in national community implementation programmes, starting in 2005.

4.7 Role of the EPC

The EPC itself has a significant programme management and communication role with a need for systematic programme management at European and country level to: manage the overall programme and interdependencies, provide a risk and issues management framework, produce consistent consolidated reporting and support the start-up of national SEPA organisations.

In relation to this the EPC needs a rigorous communication plan to create credibility and momentum, enabling it to plan for communication at all stages and levels of the SEPA programme, to coordinate and align decision-makers and implementers and to avoid 'planning blight' in national payment systems.

Roadmap Glossary

BIC	Bank Identifier Code (SWIFT)
Credeuro	The interbank convention which promotes the adoption of an efficient, low cost, end-to-end scheme for basic cross-border STP credit transfers in euro
ECB	European Central Bank
ECBS	European Committee for Banking Standards, established to develop banking standards for the European banking industry
ECSAs	European Credit Sector Associations
EMV	Europay MasterCard Visa standard based on CHIP & PIN security for card transactions
EMVCo	The company which manages, maintains and enhances the EMV specifications
EPC	European Payments Council, the decision-making body for the banking industry in relation to European payment issues
ESCB	The European System of Central Banks comprises the ECB and the National Central Banks (NCBs) of all EU Member States whether they have adopted the euro or not
Eurosystem	The Eurosystem comprises the ECB and the NCBs of those countries that have adopted the euro. The Eurosystem and the ESCB will co-exist as long as there are EU Member States outside the euro area
IBAN	International Bank Account Number
ICP	“Interbank Convention on Payments”, the convention which establishes the pan-European interbank principles for basic cross-border STP credit transfers in euro
PE-ACH	Pan-European Automated Clearing House framework, where PE-ACH is defined as “ A business platform for the provision of euro retail payment instruments and basic related services, made up of governance rules and payments practices and supported by the necessary technical platform(s)”
SEPA payments instruments	The pan-European payment instruments that will be delivered under the SEPA programme
SEPA payment scheme	The rules and practices for the provision and operation of a SEPA payment instrument agreed at interbank level in a competitive environment
SEPA	The Single Euro Payments Area
Stakeholders	Banks (and their associations and infrastructures), their customers, and regulators
STP	Straight-through-processing (can be applied to the bank-to-bank chain only or on an end-to-end basis)
White Paper	The document, that launched the European banking industry’s vision and action plan for SEPA in 2002
TARGET2	The Eurosystem’s planned replacement for TARGET (Trans-European Automated Real-time Gross settlement Express Transfer system)