

# Time to Rethink the SEPA for Cards Project



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**The SEPA for Cards project appears to have stalled and there is increasing evidence of growing disillusionment with the SEPA Cards Framework. What actions must the key stakeholders take to reinvigorate an initiative that has lost its sense of direction?**

Governments and central banks are likely to be in reflective mood as they review the difficult events of the past three months and begin to rethink the future banking regulatory environment. One thing is clear; we must all expect a return to the basics of banking and a refocus on core traditional activities. Such a change can only benefit the EU's payments business already undergoing change as a result of Single Euro Payment Area (SEPA) and the Payment Services Directive (PSD). However is the pipeline of change sufficient to meet the expected new demands of electronic and card based payment systems? Is real progress being made? More importantly, does the voluntary loosely coupled SEPA governance model meet the expectations of increasingly interventionist governments and central banks?

The current SEPA structure reflects a compromise between the three key stakeholders and owners. The European Central Bank (ECB) wishes a common, efficient eurozone payments process. The European Commission (EC) DG Markets seeks EU-wide harmonisation, common legal processes and increased competition. The banking sector, through the European Payments Council (EPC), has the role of implementation with arms length monitoring by the ECB and the EC.

This model has worked well for electronic/ACH payment instruments. Despite tensions and scoping constraints within the banking community, the common SEPA Credit Transfer scheme (SCT) was implemented on time. New versions will enable many of the specifics of larger corporates to be incorporated. SEPA Direct Debits (SDD) represent a more significant harmonisation project but despite its complexity is likely to be delivered once the PSD is in place next year. To sum up, the SEPA governance structure for electronic payments appears to represent a best practice model for successful harmonisation projects.

However success in electronic payments has not been repeated in the much more complex cards business. Over the past six years the three stakeholders have struggled to understand cards business models and the roles of the international and domestic card schemes. There have been steep learning curves. Many of the SEPA players are by background and temperament more comfortable with interbank electronic payments where structures and frameworks are simpler and easier to replace. The SEPA cards initiative is thus very much the product of the EPC's Cards Working Group (CWG), a team of card specialists drawn from banks across the EU. For a variety of reasons the CWG took an "all or nothing" bet that changing the structures and practices of the eurozone's domestic debit card schemes would result in harmonisation, common acceptance processes and the creation of SEPA for Cards. Due to the pressure of time, political issues and lack of a budget, no country level surveys of the processing barriers and blockages that restrict competition

were carried out. In addition, there was little research into the needs of large and small merchants, limited consultation with card processors and, most importantly the identification of the specific needs of acquirers. As a result, the SCF was delivered in July 2006 as the only silver bullet SEPA solution. With hindsight it is now evident that lack of time to thoroughly research and consult resulted in high level document that did not fully clarify several major change recommendations and which also contained a significant number of ambiguities. In addition, the exclusion of the international and domestic card schemes from the EPC committees did little to ensure SCF buy-in by the key players as did the lack of a mandate to enforce change.

If the aim of SEPA is to enable a cardholder to use their card cross border as easily as they do at home, then the project must primarily focus on acceptance. The objective of any card acceptance harmonisation process should be to open the cards market to enable acquirers, particularly, to join schemes and acquire in any nation and to easily utilise or interface with the domestic market processing infrastructure. Ask any pan-EU acquirer if they believe the barriers to full multi-country operation will be sufficiently removed by end 2010 to enable an all cards acceptance offer anywhere in the eurozone and the answer will be a resounding no. Acquirers must still expect to build and support country specific delivery infrastructures for at least the next five to seven years, if not longer. The SCF focuses on commercial frameworks and intra eurozone card acceptance at the expense of practical operational and technology changes in each country which would enable common processing rules. Again, with hindsight, if there had been an early focus on detailed procedures and processes in 2003, we would now be in a position to implement and deliver harmonisation by end 2010. It is not surprising that disillusionment has spread amongst those who initially supported the SCF's objectives. It is now increasingly evident that many of the SCF recommendations are unlikely to be implemented, partly because no-one agrees to the definition of SCF compliance with many claiming they have already implemented the requested changes. In addition, several key SCF concepts have been damaged by compromises and limitations in scope.

Perhaps this outcome should not surprise. The SCF's focus on scheme changes had a collateral impact on the stakeholders. Both the EC and the ECB gradually understood the implications of the SCF recommendations. Common pricing was suddenly perceived as part of the harmonisation plan. Fear of an International Card Scheme (ICS) duopoly and higher interchange resulted in calls for an EU champion card scheme, a concept outside the original SEPA remit. Statements by stakeholders have attempted to influence the SEPA for Cards direction, when in reality all the payment sector needs a set of practical changes to processes, the unblocking of some processor practices and an agreed set of card acceptance standards. In many ways all that was needed was to take the successes in SCT/SDD (which are standards based) and applying them in the same manner to the cards world.

So where are we now? To many observers the SCF initiative appears to have stalled. The ECB appears to have recently reached similar conclusions. The EC appears unsure over the next step for

card pricing. Embryonic EU card schemes are formulating but their success has been damaged by the EPC clarification that national debit schemes need not now have EU wide acceptance. Plans for scheme change and migration appear to have faltered in many nations. Some have placed on hold elements of the SEPA initiative. The card standards initiative has started but most observers believe it will be many years before implementation and their use in practice.

There is, therefore, a pressing need to stand back and rethink the basis of SEPA for Cards and to refocus on real world change that can be delivered. The key stakeholders need to find a means of re-invigorating SEPA for Cards. This could happen through a review of governance structures as recently suggested by the ECB. New temporary ownership and management might enable the cards initiative to be repositioned, capitalise on work already completed and enable the SEPA objective to be achieved.

If a new structure is needed, how should it be constructed? Times are changing. Within the EU. Governments and regulators now realise that bank free market competition often works against co-operation and that compliance can often only be achieved through intervention. Therefore to be effective any new structure should have the close involvement of the EC and the ECB.

The new structure or Cards Task Force Committee would require the active participation of the EPC but the EC would nominate an independent chair. The Secretariat could be provided by the ECB. Representation would also be from the banking sector, processors, major card schemes and the retailer/corporate associations. The committee should best be limited to ten members and supported by two to three small working groups. The Committee's brief would be to refocus SEPA for Cards and to ensure that a high proportion of harmonisation is achieved within three years using penalties where absolutely necessary to ensure compliance. The Committee's specific objectives should be action and deliverables focused with a clear responsibility to get the SEPA cards plans back on course. Specific activities could include:

- To be responsible for ensuring that all Committee recommendations are implemented where necessary using the EC and the ECB to help mandate change.
- To conduct a survey for each country to redefine the changes needed to implement SEPA for Cards. This survey to be inclusive and draw on the views of merchants, banks, processors, schemes and to identify all barriers and limitations to acceptance and processing in each country, not just those relating to domestic debit card schemes.
- Based on the survey output, to identify a prioritised, phased list of practical changes in business, operations and processing that card schemes, interbank processors, banks and merchants can implement that will remove barriers and achieve harmonisation and common processing. The objective would be to identify quick hits as well as longer term change. To

identify those changes that can be initially mandated by banking federations, international and domestic card schemes and those which may need the support of the EC and ECB penalties.

- To review and develop with representatives from each country the prioritised changes and also to review the progress made and readiness for implementing the SCF. To ask local stakeholders to draw up a country action list and to provide solid commitment to a new set of implementation of dates.
- To review the proposed SEPA Cards Standards initiative to ensure they reflect the requirements of the market and to draw up a phased plan to accelerate the process. To mandate the implementation not later than end 2012.
- To establish an overarching implementation plan for SEPA for cards, a budget and a clear definition of compliance that can be objectively tested.

So what conclusions can be drawn from this analysis? The banking sectors voluntary SEPA initiative for interbank electronic payments has been successful and the governance structure adopted has worked well. With hindsight the SCF was set at too high a level, assumed that restructuring domestic debit card scheme frameworks would deliver SEPA for Cards. For a variety of reasons the detailed barriers to entry have not been researched, fully documented or addressed. In addition, time and attention has been lost through the political diversions of common pricing, the threats from duopoly and the promotion of EU champion schemes. The implementation model adopted should have been closer to that followed for the successful SCT backed by an enforcement mandate.

In these troubled times, governments and central banks want rapid change. The SCF initiative appears to have stalled. Standardisation progress is slow. A new initiative, strong mandates and management structure is now urgently needed to own the cards plans, refocus on the detail and rescue the failing SEPA for Cards project.

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