



Talking point



SEPA: Smart Easy – Perfectly Adequate!

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SEPA aims to realise a Europe-wide single market in non-cash bulk payment transactions. Cross-border credit transfers, direct debits and card payments are to become just as efficient, inexpensive and secure as national payments. It has been possible to make SEPA credit transfers since January 2008 and SEPA direct debits since November 2009. At the moment, however, the SEPA format is only being used for one in thirteen credit transfers. The European Commission has decided to intervene by means of a regulation that sets an end-date for the parallel operation of national systems and the new SEPA system. Both the German government and the Federation of German Consumer Organisations (vzbz) consider the final migration of national account numbers and sort codes to IBAN and BIC to be asking too much of consumers. But what is truly unbearable is that a speedy changeover is being prevented by the protracted process.

The advantages of a Single Euro Payments Area (SEPA)

The advantages of the changeover are manifold, and will benefit everybody involved: there is cost-cutting potential mainly for companies operating throughout Europe as well as authorities; there will be a wider choice of payment services providers, faster and more efficient processes as well as greater transparency for consumers. Over the medium term, lower fees can also be expected in high-price markets. According to Capgemini calculations dating from 2008, a speedy changeover to SEPA could create added value for the economies of Europe to the tune of between EUR 123 bn and EUR 362 bn over a period of six years.

Efficiency gains for the overall economy require joint action

Efficiency gains for the economy as a whole, however, can only be achieved if SEPA and the Payment Services Directive (PSD) are fully implemented across the entire SEPA territory. Particularly under identical EU-wide competition conditions can payment providers throughout the single market compete for customers with their respective price/performance offers. Moreover, protracted parallel operations of SEPA and the national systems will saddle users and suppliers with unnecessary and higher costs. The changeover should therefore take place within the next two to three years, at the latest. Reasonable transition periods should be applied to allow customers and banks to get used to the adjustments in domestic payment transactions.

Most non-cash payments are automated

Besides the many benefits related to the changeover to an EU-wide SEPA system, one should bear in mind – when faced with criticism of the “excessively long new account numbers” – that in 2009 most non-cash transactions were made by means of direct debit (50%) which does not require input of the relevant account number for each transaction. The situation is similar for the 35% of total payments that are made by credit transfer in the form of standing orders or at the ATM (automated teller machine) where the customer’s own account number is inserted automatically. Hence, consumers will not notice the changes directly in the lion’s share of non-cash payments.

The logic behind IBAN and BIC - not so difficult after all

Furthermore, the logic behind the IBAN (**I**nternational **B**ank **A**ccount **N**umber) is actually very straightforward. In Germany it is comprised of 22 characters, starting with the country code (DE). This is followed by a two-number check digit, which validates the account number and sort code before the payment is carried out. The check digit is generated only once for each account number. It is followed by the (existing) eight-digit German sort code as well as the up to ten-digit (existing) account number. This means that only the country code and – for security reasons – the two-number check digit are actually new.

For cross-border payments, IBAN has long been a mandatory component. In some countries, such as Luxembourg, Italy and Belgium, it is already being used as the sole identification number in domestic payment transactions.

Use of the BIC (**Bank Identifier Code**), by contrast, could be optional, as is the case already in Italy, for instance. For private customers, the BIC could be automatically identified at the ATM and in online banking (as is the case at present with sort codes) or the bank could add it during settlement.

Comprehensive transitions from existing to new systems will always face a certain amount of resistance. A case in point is the changeover from four- to five-digit postcodes in Germany in 1993. In hindsight, the new postcodes became swiftly established and people quickly forgot the old four-digit codes. In a transition process like this, which affects practically all citizens, the state plays an important role: it can smooth the changeover via a diverse range of measures (providing information, setting an example, creating incentives for first users). First and foremost, though, the state must show that it is fully committed to the changeover rather than undermining it. To date, the German government has promoted the SEPA concept: an EU-wide and uniform introduction of the rules has always been its declared objective. The recent partial retreat from this position will have only two consequences: unsettled consumers and higher costs for everybody the longer that the full changeover is postponed.

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[Meta Zähres \(+49\) 69 910-31444](#)

[Sophie Ahlswede \(+49\) 69 910-31832](#)

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