

The Single European Payment Area

The Single European Payment Area (SEPA) is the concrete form that the political aspirations for a unified European payment framework have taken. The SEPA is the result of a long process that has evolved over the years and that will probably take several years before it becomes generally accepted as the universal payment framework within the European economic space.

The SEPA is a politically-driven initiative that has been born out of the aspirations for closer economic and political co-operation within the European Union.

The SEPA will certainly have significant repercussions on the European financial industry and the European economy as a whole. The impact of the SEPA will be also felt worldwide since it will unify a substantial part of the global international financial transactions.

One could state, without exaggeration that the SEPA is nothing short of a revolution that will have economic and political consequences worldwide.

The SEPA was established by the Payment Services Directive of the European Commission. The SEPA impacts all banks and financial institutions in the European Union member states, the countries in the European Economic Area and Switzerland.

The SEPA also has an impact for all consumers in the countries involved.

The main SEPA principle

The main SEPA principle is simple: the citizens of the European Union and its associated economic space should be able to execute payments in euros under the same basic procedures and rules and using the same basic financial instruments without any further distinction in all the European Union countries.

This essentially means that all payments in euros between the European Union countries will be considered identical, without any distinction in domestic and international payments.

In other words, there will be no more cross-border payments within the European Union.

The SEPA payment instruments

A council that consists of European banks, the European Payments Council (EPC), is developing the commercial and technical framework for the SEPA.

The EPC will initially deliver three main payment instruments that will form the objective basis on which the main principle of the SEPA will be materialized.

These instruments are the Credit Transfer, Direct Debit and Cards Framework.

The European Banking Association will introduce a Pan-European Automated Clearing House that will provide the clearing services necessary to power the SEPA.

These Credit Transfer and Cards Framework instruments will be available as of January 2008 and the Direct Debit instrument as of January 2009.

The impact of SEPA on banks and other financial institutions

The impact of SEPA on the European financial industry will be substantial. The impact of SEPA will be felt across different areas.

One of the most dramatic effects that the SEPA will have on the European financial industry as a whole is the fact that, depending on how it evolves, SEPA has the potential of disrupting one of the most important source of revenues for banks, the revenues based on payment products.

The implementation of SEPA also brings significant costs for banks and financial institutions.

In addition to this, SEPA will also change the market dynamics that apply at this moment. Competition between banks and other financial institutions is expected to become more intensive something that might also have an impact on the revenues of, at least, some of the current players in the European financial market.

One should also consider the major impact that SEPA will have on the operating models of banks and other financial institutions.

These changes will create a framework where dramatic changes in the current alliances between major players in the financial market will certainly take place.

Banks and other financial institutions will have to adapt to the new conditions and to seek and identify new revenue opportunities such as the provision of information on payments.

The impact of SEPA for the consumer

The impact of SEPA for the consumer will also be nothing less than dramatic with many changes being directly noticeable to any individual holding a bank account in one of the countries involved.

Among the changes that will be noticeable by consumers are the following.

There will be a new method of making payments, available with common standards across Europe. One account in one of the countries involved in SEPA will be sufficient to serve all the consumer's needs in all the countries participating in SEPA.

In addition to this, there will be complete transparency of the charges that apply to SEPA payments all across Europe.

The consumer will be able to use any national payment card in all the countries that are involved in SEPA.

One should also notice the increased fraud protection that SEPA is expected to provide to both the consumer and the industry.