

The Belgian migration to SEPA (Single Euro Payments Area)

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1. Introduction

The signal for the operational launch of SEPA, the “Single Euro Payments Area” was given just over a year ago: since 28 January 2008 it has been possible to use the European transfer to effect payments anywhere in the SEPA area.

The main aim of SEPA is to promote financial integration in Europe, more particularly in the field of cashless payment services and payment systems. The aims of SEPA and its main players are described in detail in the article *The Single Euro Payments Area: SEPA* published in the September 2007 issue of the *Economic Review*. The present article describes the progress made in the SEPA project since then. SEPA is intended to enable all economic players (businesses, consumers and public authorities) to effect payments anywhere in the SEPA zone⁽¹⁾ as easily, securely and efficiently as domestic payments. It must also be possible to execute these payments in accordance with a single regulatory framework within which all players have the same rights and obligations. To that end, the European Parliament and the Council adopted

a directive on payment services in the internal market (hereinafter “the Directive”), which has to be transposed into national law by 1 November 2009.⁽²⁾

The SEPA migration is a process whereby the current national payment instruments are gradually replaced by standardised European instruments.

European instruments have been developed for credit transfers and direct debits, while a general framework has been set up for payment cards. The development of standards for these payment instruments and the organisation of the migration to SEPA were largely decided by the banking sector. For that purpose, interbank consultation bodies were set up at national and European level, and special structures were created to encourage societal dialogue concerning SEPA and its implementation. In Belgium, the organisational structures behind the SEPA migration are the “Steering Committee on the future of means of payment” and the SEPA interbank Forum.⁽³⁾

The Steering Committee brings together all the economic players (banking sector, businesses, consumers and public authorities). Chaired by the governor of the National Bank of Belgium, it has the task of organising the Belgian migration to SEPA in the optimum way. The SEPA Interbank Forum organises the transition to SEPA within the banking sector, which plays a pre-eminent role in the introduction of the new payment instruments.

The introduction of the European credit transfer, which began last year, has been very gradual, and deliberately so: one reason being to ensure a faultless technical migration.

(1) SEPA consists of the European Union (EU) countries plus Iceland, Liechtenstein, Norway and Switzerland. A number of territories are deemed to form part of the EU (under Article 299 of the Treaty of Rome). They are the French overseas departments (Martinique, Guadeloupe, Guyana and Réunion), Gibraltar (United Kingdom), the Azores and Madeira (Portugal), the Canary Islands (Spain) and the Åland Islands (Finland). Five of these territories have their own ISO country code. Altogether, 36 ISO country codes are therefore possible in SEPA. A transaction is not regarded as a SEPA transaction unless it is effected between two banks whose Bank Identifier Code (BIC) contains one of these 36 ISO country codes.

(2) Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the single market, amending directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC.

(3) In the course of its work of monitoring and assisting the economic players in their transition to SEPA, the Steering Committee publishes progress reports at regular intervals. This article is based on the “Second progress report on the migration towards SEPA in Belgium”, published at the beginning of March 2009 under the auspices of the “Steering Committee on the future of means of payment”. Second progress report on the migration towards SEPA in Belgium, March 2009, http://www.nbb.be/doc/ts/Products/PaymentSystems/SEPA/FR_MoBmars2009.pdf.

Since the economic players are not yet under any obligation to use the new credit transfer forms, this initial phase was practically invisible to end users. The SEPA migration process will be developed further in 2009, as this article will explain.

Chapter 1 describes the launch of SEPA at the beginning of 2008 and the timetable envisaged for the various European payment instruments. Chapter 2 discusses the implementation of SEPA at interbank level, while the subsequent chapters describe the situation for the other key players. Thus, chapter 3 gives an account of the progress so far in public services, which were the first to begin the migration to SEPA by introducing the European credit transfer in their payment systems. Chapter 4 examines the situation and the timetable for businesses. Finally, the last two chapters respectively describe the situation for consumers and communication relating to SEPA.

2. Sepa's operational launch in Belgium

2.1 Introduction of the European credit transfer (SEPA Credit Transfer or SCT)

On 28 January 2008, SEPA was introduced as planned in the SEPA countries, i.e. the 27 European Union (EU) countries plus Iceland, Liechtenstein, Norway and Switzerland. The first payment instrument conforming to the SEPA standards is the credit transfer: in Belgium, the SEPA credit transfer is known simply as the "European credit transfer". Customers in Belgium can now effect European credit transfers via their bank, using the various traditional channels. There is therefore no longer any difference between a domestic credit transfer (for example, between a person living in Antwerp and a person living in Liège) and a cross-border transfer in euro in the SEPA zone (between a Belgian resident and a resident of one of the other 30 SEPA countries).

This also means that, since 28 January 2008, the term "international credit transfer" has been reserved solely for transfers between a Belgian resident and a country outside SEPA (i.e. outside the 31 countries).

No problems emerged in the launch phase; the European credit transfers presented were correctly processed by banks and by interbank systems.

The bank migration plan provides for a three-year transitional period during which the current domestic credit transfers will be replaced wherever possible by European credit transfers. To achieve that aim, the banks will cease issuing the current domestic paper credit transfer form from the beginning of 2010, and it will be phased out altogether by the end of that year.

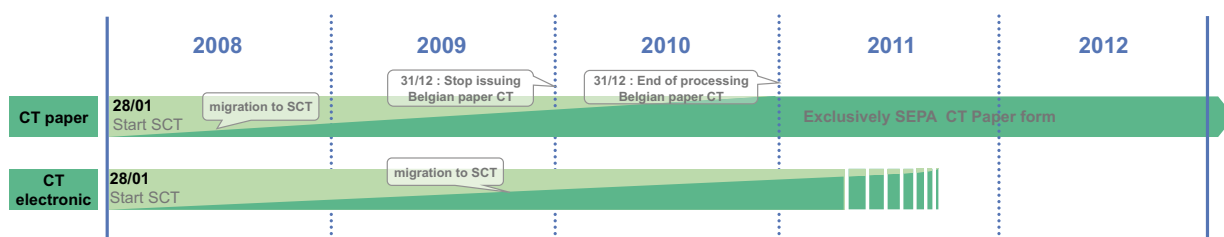
The plan takes account of the fact that all customers must have adopted the European variant of the credit transfer during a three-year period commencing on the SEPA launch date, i.e. by 31 December 2010 at the latest (cf. diagram). In the case of paper credit transfers, the transitional period should be shorter; the new forms must be in use by the end of 2009. Banks will cease issuing Belgian credit transfer forms to their customers from January 2010, but these forms will still be accepted and processed by the banks up to the end of that year.

The only differences between the Belgian credit transfer forms for domestic use and the European credit transfer concern the following points:

- the data concerning the payer and the payee are no longer shown side by side but are placed one above the other;
- it is mandatory to state the international bank account number (IBAN⁽¹⁾ – International Bank Account Number) of both the payer and the payee;
- it is mandatory to state the payee's name;
- the form is redder in colour.

For the general public, the main difference between the European and Belgian credit transfers concerns the use of the IBAN number.

(1) In Belgium, the International Bank Account Number comprises the code BE (country code) followed by a two-number check digit plus the traditional bank account number. The IBAN account number is therefore four digits longer and appears on all bank account or post office account statements. It is structured in the form of 4 x 4 digits. The public can refer any questions about the IBAN account number to their bank or post office.



In most cases, the general public will notice that the credit transfer form has already been largely completed by the creditor and that consequently, since the payee's name is already shown on the credit transfer, the payer need not worry about this additional mandatory information. The main new feature for citizens is that they have to state their own bank account number using the IBAN format in the box provided for the payer. In the case of "Home banking", there is no need to state the payer's account number; it is only necessary to enter the payee's account number in the IBAN format.

The migration from the domestic credit transfer to the single European standard was phased in very gradually.

In January 2008, the volume of European credit transfers was very small, and it grew slowly during the ensuing months. In the space of a year, the volume of European credit transfers processed in Belgium rose from 0.4 to 2.3 p.c. of total credit transfers. That trend corresponds to what was seen in other countries. The introduction was deliberately slow and gradual, allowing bank customers to choose when they wanted to switch to the European credit transfer. Small initial volumes in fact limit the risk of breakdowns in banking systems, as businesses and public services can make gradual adjustments to their systems in line with the new SEPA standards

Chart 1 compares the volume of European credit transfers processed by the Belgian retail payments system (Centre for Exchange and Clearing – CEC) with the aggregate volumes processed by the main European retail payment systems in the euro area.

In Belgium as in the rest of Europe, use of the European credit transfer began on a very small scale and expanded only very slowly during the ensuing months. The relatively steep rise seen in Belgium in December 2008 was due to the launch of the European credit transfer by public authorities during the final quarter of 2008 (cf. chapter 4).

Since 2 February 2009, a slightly modified version of the European credit transfer has been in use, but that is not expected to have any impact on the volumes processed.

The differences in relation to the first version of the SCT are minor, and concern the addition of a new optional field for the payer and the payee, in cases where they are not the holders of the accounts indicated on the credit transfer form. Citizens, as payers, and businesses or public authorities, as payees, will therefore be able to complete these additional fields. These optional fields will be available only on certain electronic versions of the European

credit transfer, as the paper credit transfer form will not be modified.

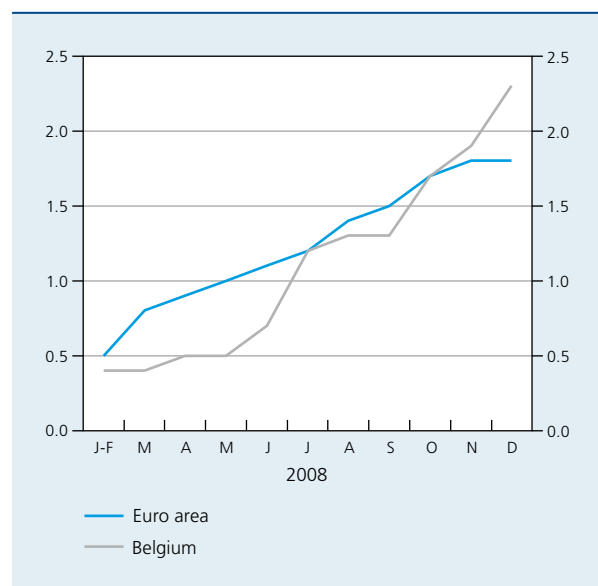
2.2 Introduction of the European direct debit (SEPA Direct Debit or SDD)

Unlike the credit transfer, the European direct debit (SEPA Direct Debit or SDD) is not yet in use.

The banking sector set the launch date for the European direct debit at European level: it will coincide with the date on which the payment services directive has to be transposed into national law, namely 1 November 2009. This directive creates a unified legal framework in Europe. It has significant implications for direct debits, since that means of payment is fundamentally different from credit transfers, for example, particularly as regards the rights and obligations of the parties involved (banks, creditors and debtors). The EU directive was approved on 24 April 2007 by the European Parliament; it has to be transposed into the national law of each Member State by no later than 1 November 2009.

The success of the launch of the European direct debit on 1 November 2009 will depend mainly on a number of legal aspects, its adoption by the market, and the time taken to implement it in banks and businesses.

CHART 1 TRANSACTIONS IN THE SEPA FORMAT (2008)
(percentages of the total volume of credit transfers)



Sources: ECB, CEC.

2.2.1 Legal aspects

2.2.1.1 The payment services directive

At the time of publication of this article, there are still a number of legal uncertainties concerning the migration to the European direct debit.

The process of transposing the directive into national law is on-going (cf. also point 4.5), and the European direct debit cannot be launched until the directive has been transposed into the national law of all the European Union countries (and the EEA), namely from 1 November 2009. According to the latest available information, the directive will be transposed into Belgian law by that date.

Regarding content, the directive offers the Member States a range of options enabling them to make some adjustments according to the national context.

Thus, it is for each Member State to decide whether or not "micro-enterprises" will be classed as "consumers". If "micro-enterprises" were regarded as "businesses", they would be able to take part in the "business-to-business" scheme (cf. point 2.2.3) available to businesses and facilitating the efficient collection and payment of their invoices. Consumers, on the other hand, enjoy greater protection under the directive, since it is easier for them to contest a direct debit.

Once a payment has been effected by direct debit, consumers have eight weeks in which to request repayment (unless the framework contract between the consumer and the payment service provider specifies otherwise). Businesses have less need of such protection, in view of their contractual relationship with their financial service provider. It is therefore important to decide on a precise definition of the concept of a "consumer". For example, if self-employed workers or other small enterprises were classed as businesses rather than consumers, they would not be entitled to that eight-week period for reclaiming a payment made by direct debit.

A second example concerns direct debit mandates. Under the Belgian direct debit system, a direct debit mandate is an authorisation which a debtor gives to his bank for the purpose of debiting his account on the basis of a payment instruction presented by the creditor, via the latter's bank. How the mandate should be issued and to whom is a question yet to be examined, and the same applies to the direct debit withdrawal or cancellation procedure.

A number of countries are unsure about the continuing legal validity of local direct debit mandates in the context of the migration to the future SEPA Direct Debit (SDD) scheme. This mainly concerns countries such as Belgium, where the domestic direct debit system provides for the debtor's bank to hold the mandate. That system could encounter legal restrictions connected with the fact that the mandate will have to be retained by the creditor following migration to the SDD scheme. In Belgium the principle of the continuing validity of direct debit mandates is to be specified by law. That will obviate a cumbersome administrative and technical operation whereby all existing Belgian direct debit mandates (around 30 million) would have to be replaced with SDD mandates, and individuals would have to be asked to sign those SDD mandates, without any resulting benefit for any of the parties.⁽¹⁾

One of the aims of the Directive is to harmonise the rules applicable to all payment instruments.

Only certain payment instruments which are falling into disuse, such as cheques, bills of exchange and travellers' cheques, are outside the scope of the Directive. In Belgium, the most important implications of the Directive will concern direct debits. The main change lies in the increased protection for consumers/payers (cf. above), since they will have eight weeks in which to demand the return of a payment already made.

In that case, two conditions must be fulfilled: the payment must not be a fixed amount and it must exceed what the payer could reasonably expect. It is up to the banks to decide whether or not to take account of these conditions, as the Directive allows them to specify in the framework contract concluded with the payer that the latter can claim repayment even if the said two conditions are not satisfied. The payer's bank will have to effect the repayment within ten days following submission of the application.

Conversely, the banks may specify in the framework contract concluded with their customers that no repayment will be possible unless two other conditions are met. First, the direct debit mandate must have been issued directly to the payer's bank, and second, the information on the future payment (such as the amount) must have been notified to the payer at least four weeks before the due date.

The Directive also contains clauses on execution times and value dates. The payer's bank must ensure that the payee's bank will be credited with the amount due on the next working day. Up to 31 December 2011, that period

(1) Conversely, since the B2B scheme is a totally new form of recovery, it requires new mandates to be signed.

may be three working days. However, in so far as the existing Belgian legislation already specifies a single day, that option will not apply to credit transfers except for cross-border payments.

With effect from 1 January 2012, all payment instructions (in euro) to be effected by credit transfer, direct debit or card will be executed within a maximum of one day. Paper transactions may take an extra day. The payee's bank will have to apply the value date and make the amount available on the account of the payee (the creditor) as soon as it is received. The payer's bank will not be able to apply a value date earlier than the date on which the customer's account is debited.

2.2.1.2 Revision or replacement of Regulation (EC) n° 2560/2001 of the European Parliament and of the Council of 19 December 2001 on cross-border payments in euro (hereinafter "the Regulation")

The Regulation aims to align the charges for cross-border payments in euro within the EU with the charges for domestic payments.

Except under certain conditions, banks cannot make additional charges for cross-border transactions (credit transfers and card payments) effected in euro within the European Community (up to a maximum of 50,000 euro) in excess of the charges for domestic transactions. Work is currently in progress on revisions to the Regulation at European level. The principal proposed amendment concerns extending to direct debits the basic principle of equality of charges between domestic and cross-border payments. This means that banks cannot charge higher rates for cross-border direct debits than for domestic direct debits.

In that context, the Multilateral Balancing Payment (MBP) or Multilateral Interchange Fee (MIF) is very important. This is a fee paid by one bank to another bank to enable the latter to debit amounts from customers' accounts. Without such interchange fees, banks (and especially banks which have no creditors among their customers and do not collect direct debits from other banks' customers) would be more reluctant to take part in the direct debit schemes which enable the creditors' banks to effect debits directly from the accounts of their own customers. A compromise is currently under examination at European level, which would allow this MIF/MBP to be charged to cross-border direct debits and permit the launch of this new European payment instrument. On expiry of a launch period, MIF/MBPs would have to disappear at both national and international level.

2.2.2 Adoption by the market

In the light of the legal and other uncertainties, businesses are reluctant to adopt the new direct debit.

Until all the factors which could have an impact on their production processes are known, businesses will hesitate to undertake the developments necessary for switching to the European direct debit. It is clear from the draft legislation mentioned above that the debate over the repayment entitlement is the main stumbling block in some cases. In practice, this rule means that businesses remain uncertain about cash received during the eight week period in which repayment may be demanded.

Businesses also need to make technical preparations. The European Payments Council (EPC) has defined the new business model for direct debits which, in Belgium's case, is fundamentally different from the domestic DOM80 scheme. As creditors, firms will in future have to keep a record of the data concerning their customers' direct debit mandates. It used to be the payer's bank that kept its customer's mandate. Creditors (or their service providers) will have to keep a record of their customers' direct debit data and attach them to every instruction which they send to their bank for the execution of a direct debit.

It is therefore still unclear how businesses will react to this new European direct debit.

2.2.3 Implementation timetable

Banks plan to make the SEPA Direct Debit available from 1 November 2009 in two versions: the core scheme and the Business-to-Business (B2B) scheme.

The core scheme is a variant of the domestic direct debit system used to collect invoices issued by businesses to individuals. Practically all banks will participate in this scheme. The B2B scheme is intended for the automated collection of invoices between businesses, and the banks will offer it as an option.

Both schemes will be supplemented by an electronic circuit in order to implement the SEPA Direct Debit. The mandate whereby the debtor gives his bank prior authorisation to debit his account on the creditor's instructions on presentation of an invoice will be organised in electronic form ("e-mandate"). For that purpose, a debtor will need to be able to sign and submit an electronic mandate from the creditor's website.

All the adjustments which banks and businesses need to make will have to be operational by 1 November 2009, which is a relatively short deadline given the scale of these changes.

It is therefore questionable whether the European direct debit will enter into operation on 1 November 2009. While the banks are actually doing everything possible to be operational by that date, they will need to wait for the final text of the Belgian law before they can launch the final implementation phase (cf. above). After that, businesses will still have to make the necessary modifications to permit the automated collection of invoices.

The original plan was to end the use of the Belgian DOM80 system on the same date as the credit transfers, i.e. 31 December 2010. The transitional period would therefore be much shorter for direct debits (13 months) than for European credit transfers. That period was deemed too short for organising the switch from Belgian to European direct debits.

It was therefore decided that there should also be a three-year transitional period, by analogy with that for European credit transfers (cf. diagram below). However, the banking sector has not yet taken an official decision on this subject.

2.3 The European payment card (SEPA Card)

The SEPA Card Framework is ready and has applied since 1 January 2008, but that has had little or no practical impact on the Belgian market in bank cards.

The original plan whereby the Belgian payment card scheme "Bancontact/Mister Cash" would be replaced in a single operation by Maestro (a Mastercard product) was not carried out. This plan received little support from the various market players, principally traders, the distribution sector and consumers' associations. Some payment service users were vehemently opposed to it, fearing that it could lead to a steep rise in costs, among other things.

(1) This concerns around 1 million transactions out of a total of approximately 900 million in 2008.

Although the original plan for switching to a new payment card scheme in a single operation was abandoned, the Belgian market is technically ready for the introduction of new card payment schemes.

Technical modifications have been made to payment terminals and cash dispensers, enabling them to accept payment cards other than Bancontact/Mister Cash for domestic transactions. Before 2008, schemes such as Maestro could only be used by Belgians abroad, or by foreigners via Belgian terminals. Thanks to these modifications, the Belgian payment card market is considered to be ready for SEPA.

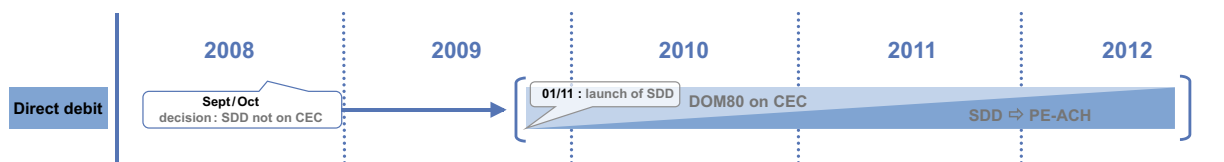
No new payment card scheme offering more advantages for banks and traders has yet been proposed. In practice, the current situation remains unchanged (use of Bancontact/Mister Cash), except that it is now possible to use Maestro for domestic payments. In reality, this additional option is rarely used since there is currently no extra advantage in it for payment service users⁽¹⁾.

The most sensitive points concerning payment cards are the shortcomings in the standardisation process, the new initiatives aimed at a European payment card, which are still at the embryonic stage, and the uncertainty over interchange fees.

Though there will be modifications to payment cards in the future, it is not yet clear when Belgian traders will feel the practical effects. The most important changes are set out below.

- The discussions currently concern functional and technical requirements and standards which will ultimately have to be met by all terminals and cards in SEPA. The parties concerned (traders, terminal vendors, card issuers and processors, etc.) have yet to consult one another on this. It is therefore not yet possible to say when the consequences will become apparent for traders.

The European authorities (European Central Bank (ECB) and the European Commission) are pressing for the establishment of at least one European payment card scheme, in order to ensure a competitive alternative to the solution offered by the only two institutions



currently offering debit card schemes in Europe, namely Mastercard and Visa. There have been various initiatives here, but it is hard to know at this stage whether they will eventually lead to new operational payment card schemes on the market. In Belgium, for instance, an initiative was launched for the creation of a new European payment card scheme designed from the point of view of distributors and traders (PayFair).⁽¹⁾ This project is being developed further, and an initial test is due to be launched in May 2009, in collaboration with a major Belgian distributor.

- Doubts still persist regarding interchange fees (fixed rates applied to compensate for the costs of the relationship between the trader's payment service provider and the card holder's bank). The European Commission's Directorate General of Competition condemned the system applied by Mastercard in this connection, and another case is still on-going against Visa. The uncertainty over what can or cannot be done on this subject is inhibiting market players from developing their initiatives, since they cannot yet ascertain whether a real opportunity exists in the card market.

3. The launch of SEPA in banks

3.1 The "Customer-to-bank" aspect

Since January 2008, all bank customers in Belgium have been able to present European credit transfers to their bank.

Banks operating in Belgium have undertaken to provide their customers with at least one channel for presenting a European credit transfer. In fact, since the launch, the customers of most banks have had access to several channels for presenting credit transfers in the European format.

Chart 2 shows the number of channels made available by 56 banks operating in Belgium.⁽²⁾ This sample represents over 95 p.c. of the volumes, in terms of capital and

number of transactions, in the exchange of payments in Belgium. Individuals have a choice of four channels for presenting European credit transfers to their bank: the European credit transfer form, the counter at their bank branch, internet banking and the "self-banking" terminal on the premises of their bank.

In Belgium, all banks are SEPA-compliant since they have made available at least one channel through which their customers can present their European credit transfers. Most banks actually offer a number of channels.

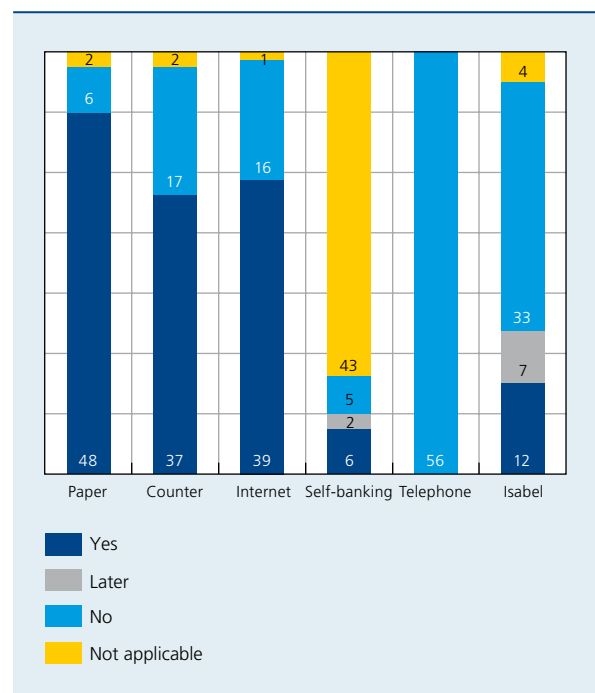
The banks have not adapted the traditional telephone banking service because increasing numbers of customers are abandoning that in favour of internet banking.

Moreover, it is technically complicated to enter letters (necessary for entering the IBAN account number which begins with two letters, such as BE) by using a traditional telephone keypad.

Professional users of payment services (public authorities, businesses, etc.) use Isabel 6, namely the new SEPA version of Isabel services⁽³⁾, to initiate SEPA payments.

CHART 2 BANK CHANNELS AVAILABLE FOR CUSTOMERS TO PRESENT EUROPEAN CREDIT TRANSFERS

(situation as at the end of September 2008; numbers; survey of 56 banks operating in Belgium)



(1) The other initiatives are the Euro Alliance of Payment Schemes (EAPS) and the Monnet Group. The EAPS is a cooperative society which aims to create a European payment card scheme by linking up all the existing debit card schemes. The participants are Multibanco (Portugal), PAGO/BANCOMAT (Italy), Vocalink (United Kingdom), EURO 6000 (Spain), EC Electronic Cash (Germany) and EUFISERV (European savings banks group). The Monnet Group is a group of leading German and French banks which aims to create a new European payment card scheme.

(2) The survey results should be interpreted with caution as a negative response may also correspond to the response "not applicable". That is true in particular of the banks which replied that European credit transfers could not be presented at their counters, whereas these are often banks with only a few counters or none at all, as in the case of internet banks.

(3) Isabel provides banking telematics and electronic invoicing services. It offers a multibanking platform for payment service users.

The wide availability of the Isabel platform is essential for multibank institutions, since it is the only channel which permits the presentation of credit transfers (and other information) to different banks. A vital player on the payment services market for businesses and public authorities, Isabel is currently in the process of opening up its new platform on a bigger scale.

Businesses active on the Enterprise Resource Planning (ERP) market are also preparing to introduce the new XML standards for European credit transfers.

3.2 The interbank aspect

3.2.1 Interbank processing of European credit transfers

Belgian banks process the great majority of European interbank credit transfers via the Centre for Exchange and Clearing (CEC), the retail payment system in Belgium, and via the European payment system of the Euro Banking Association (EBA), STEP2.

The CEC processes Belgian domestic credit transfers between two holders of accounts with banks established in Belgium. The CEC has also been adapted to cater for European credit transfers between holders of accounts

with banks established in Belgium. For European credit transfers, the banks may also use other systems, in particular the European EBA/STEP2 system. A number of Belgian subsidiaries of foreign banks send and receive European credit transfers which they exchange with other Belgian banks in EBA/STEP2. Cross-border credit transfers for which one of the parties is a customer of a bank established in another SEPA country are processed by EBA/STEP2.

The migration from the current formats to the SEPA formats has taken place very rapidly in the case of cross-border credit transfers.

In contrast to the particularly slow migration of “domestic” European credit transfers, the switch to the SEPA format has been extremely quick in the case of cross-border credit transfers. Table 1 shows the number of cross-border credit transfers which the banks processed via EBA/STEP2 in Belgium, and bears witness to this rapid migration. Within three months, of a total of around 1 million credit transfers per month, most were already being processed as European credit transfers.

In the case of “domestic” European credit transfers, migration from the current format to the SEPA format was much slower.

TABLE 1 MIGRATION OF EUROPEAN CROSS-BORDER CREDIT TRANSFERS TO THE SEPA FORMAT
(credit transfers processed in Belgium via EBA/STEP2 by banks established in Belgium)
(number of transactions, 2008 data)

	Total transactions			Percentage share		
	SEPA	Non-SEPA	Total	SEPA	Non-SEPA	Total
January	n.	1,005,318		0	100	100
February	170,449	811,448	981,897	17	83	100
March	430,344	551,213	981,557	44	56	100
April	590,790	480,207	1,070,997	55	45	100
May	551,993	446,795	998,788	55	45	100
June	522,550	516,136	1,038,686	50	50	100
July	481,331	608,968	1,090,299	44	56	100
August	407,404	497,524	904,928	45	55	100
September	506,629	535,253	1,041,882	49	51	100
October	576,263	563,483	1,139,746	51	49	100
November	505,671	474,732	980,403	52	48	100
December	689,072	507,032	1,196,104	58	42	100

Source : EBA.

TABLE 2 PROCESSING OF EUROPEAN CREDIT TRANSFERS BY BANKS IN BELGIUM
(number of transactions, 2008 data)

	EBA/STEP2	CEC
February	170,449	181,525
March	430,344	192,289
April	590,790	230,816
May	551,993	207,885
June	522,550	321,278
July	481,331	552,258
August	407,404	513,039
September	506,629	574,066
October	576,263	796,220
November	505,671	777,709
December	689,072	1,157,756

Sources: EBA, CEC.

During the months which followed the launch of SEPA (March-June), Belgian banks processed two-thirds of European credit transfers via EBA/STEP2 and one-third via the CEC. That proportion changed after a few months, and since July 2008 the number of European credit transfers processed by the CEC has exceeded the number processed by EBA/STEP2.

In December 2008, around 2.3 p.c. of the number of credit transfers handled by the CEC were in the SEPA format, corresponding to 55,000 European credit transfers per day, out of a total of 2.4 million. In recent months, peaks of 87,000 European credit transfers per day have been recorded. The proportion of SEPA transactions varies greatly from one bank to another. For example, one average bank and two small banks achieved significant figures of respectively 36, 17 and 13 p.c. of European credit transfers in their total traffic.

Table 2 shows the SEPA credit transfers processed by the two payment systems. The European credit transfers processed by EBA/STEP2 are cross-border transfers (between an account holder in Belgium and a second person in another SEPA country) or national transfers (between two account holders in Belgium), whereas the European credit transfers processed by the CEC are "domestic" European credit transfers only.

In 2007, the CEC had already made the modifications which needed to be effected by 28 January 2008 in order to organise the exchange and clearing of SEPA European credit transfers between Belgian banks.

European credit transfers are processed in parallel with the "old" Belgian standards for credit transfers, cheques, payment cards and direct debits. As already mentioned, the aim is to replace almost all "Belgian" credit transfers for national use with European credit transfers between now and the end of 2010.

In the case of intrabank transactions, there are few statistical data available, since the banks use internal applications to process intrabank European credit transfers. However, on the basis of partial data, it is possible to estimate that the proportion of intrabank transactions in the European format in the total number of intrabank transactions corresponds to the proportion of credit transfers in the European format in interbank traffic.

3.2.2 Consultation in the SEPA Forum: the Belgian bank migration plan

The Belgian banking sector regularly updates the migration plans. The latest version comprises a number of modifications which concern among other things the termination date for the Belgian standards and the European direct debit.

Meanwhile, the Belgian banking sector is working on preparations for the introduction of the other European payment instruments and adjustments to the Belgian payment infrastructure. In relation to the previous planning phase, the following changes have been made:

- change of date for the termination of Belgian payment instruments;
- decision to extend the Belgian direct debit scheme (DOM80) after 1 November 2009 and adapt it to conform to the requirements of the new European rules (the Directive);
- decision not to implement the European direct debit (SEPA Direct Debit) in the Belgian payment system (CEC). The Belgian payment systems will therefore not handle the technical processing of the European direct debit which will be used by the users of Belgian payment services.

3.2.2.1 Termination date for Belgian credit transfers

The intention is no longer to phase out the “Belgian” credit transfers altogether by the end of 2010, at least in the case of electronic transfers. But the end of 2010 is still the deadline for achieving a critical mass of European electronic credit transfers. Belgian paper credit transfers are to be phased out completely by the end of 2010.

Whereas 31 December 2010 used to be regarded as the absolute deadline for the termination of Belgian domestic credit transfers, that date is becoming less and less definite. However, the end of 2010 is still the date on which the banks will cease to process paper credit transfers. No banks will continue to issue paper forms after 2009. Forms still in circulation on the market will continue to be accepted by the banks in 2010. That should allow stocks of old forms to be used up.

To determine an end date for the other Belgian standards, the banking sector has promised that the banks will do everything possible to ensure that a critical mass of credit transfers in the European format is achieved by the end of 2010. The “critical mass” in terms of the volume of transactions has yet to be defined. In practice, it is difficult for the banks to decide unilaterally on a termination date for the “old” products; moreover, this needs to be viewed in a European context.

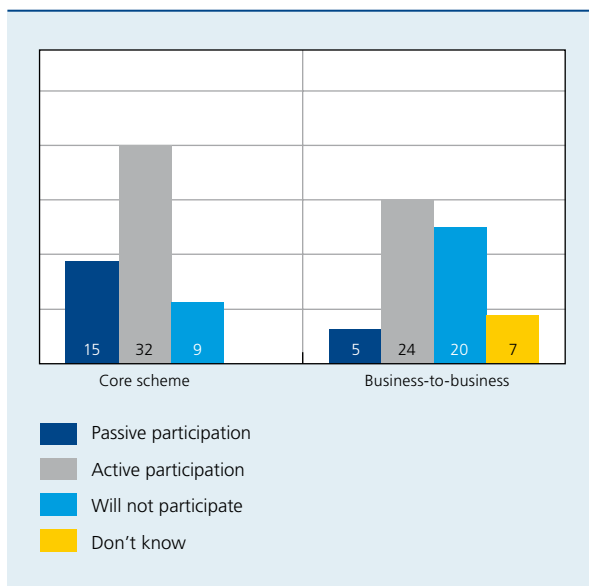
3.2.2.2 Retention on 1 November 2009 of the Belgian direct debit scheme (DOM80) in conformity with the new Directive

The current Belgian direct debit scheme (DOM80) will not expire on 1 November 2009.

The banks have decided to adapt the current domestic direct debit scheme, the DOM80, so that it can continue to be used after 1 November 2009 (the date for transposition of the Directive into Belgian law). The necessary adjustments are currently being prepared, and consist, for example, in the addition of a refund channel in the Belgian direct debit system.

CHART 3 INTENTIONS OF BANKS IN BELGIUM REGARDING PARTICIPATION IN THE SEPA DIRECT DEBIT SCHEMES

(numbers; survey of 56 banks operating in Belgium)

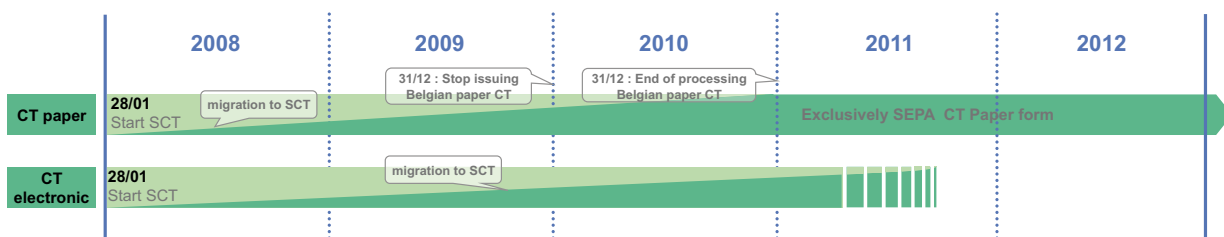


They will facilitate a gradual transition to the European direct debit, with the Belgian direct debit continuing in parallel. In fact, as already mentioned in point 2.2, the transition to the European direct debit is likely to be very gradual. That will probably result in a migration period of 2 to 3 years, during which the Belgian and European direct debits will exist side by side.

3.2.2.3 Processing of European direct debits on a European platform

In Belgium, most banks intend to take part in the European direct debit schemes, though these will not be installed on the CEC’s technical platform.

In Belgium, banks will offer the European version of the direct debit from 1 November 2009. They have undertaken to participate, at least passively, in the basic SEPA



direct debit scheme of the European Payments Council (EPC). This means that they will need to be able to process the collection requests presented by other banks.

A review of the situation in the banking sector was conducted to check on compliance with this obligation essential to the European scheme, (cf. chart 3). The great majority of the banks (47 out of 56) stated that they were prepared to participate in this core scheme. Of these, 32 will play an active part, which means that they will offer European direct debits to businesses, to enable them to collect their invoices automatically. The other 15 banks will participate passively, and will only prepare their customer accounts to cater for incoming direct debits. In most cases, the banks which do not intend to participate are those which do not currently offer their customers direct debit products, and which therefore do not need to migrate to a European variant.

Apart from the core scheme, the EPC has also developed an optional direct debit scheme reserved for businesses to use between themselves. This is the Business-to-Business (B2B) model. According to the survey, about half of the banks currently intend to participate in this optional scheme.

To meet the EPC's requirements, banks must at least participate passively (i.e. as transaction recipients) in a Pan-European Automated Clearing House (PE-ACH) for European direct debits under the core scheme. The Belgian retail payment system, CEC, will not be used as an interbank exchange channel for European direct debits.

4. Migration to SEPA by public authorities

In Belgium, the public authorities are well into the SEPA conversion phase and are setting an excellent example, as requested.

4.1 Introduction of European payment instruments by the federal government

The Belgian federal government launched the operational migration phase in September 2008 and had almost completed it on 1 January 2009.

On 27 June 2008, the Council of Ministers approved the proposal for gradual introduction of the new European credit transfer forms in public services, so that the latter would be ready to comply with the new SEPA standard on 1 January 2009. That is the most important target

date for public services, since from then on all the Federal Public Services (FPS) and Federal Planning Services (FPP) will use only the new credit transfer form. In principle, all electronic credit transfers (incoming and outgoing) will also be executed in the European format. As the calendar year does not coincide with the tax year, a second target date was decided, namely 1 September 2008. Since that date, tax statements relating to motor vehicle duty and notices of personal income tax have been accompanied by a European credit transfer form. Around 500,000 payment notices relating to motor vehicle duty have been sent out each month since September 2008. At the end of 2008, new European credit transfer forms were attached to 3,350,000 requests for payment.

Via this government initiative, taxpayers have in fact been asked to effect payment according to the new European format. In practice, citizens who – following the final calculation of their income tax – have a tax liability may pay the amount due by using the new European credit transfer form attached to the notice of income tax. Citizens entitled to a refund will see their account credited via a European credit transfer effected by the government. The Federal Public Service Finance (FPS FIN) was the first to migrate to SEPA and was fully prepared for that transition on 1 January 2009. Many other Federal Public Services also made the transition on that date.

4.2 Internal organisation in the federal administration

The federal government took the lead in the migration to SEPA and created a Steering Committee comprising members representative of all the Federal Public Services directly concerned with the SEPA migration.

The first progress report presented an overall view of the organisational structure of this Steering Committee. As a "horizontal" Federal Public Service with a mission to promote and support the establishment of management systems in public services, FPS Budget and Management Control played a key role.

All the Federal Public Services are more or less ready to migrate to SEPA.

On the initiative of the European Commission (EC), a survey of public services in the EU countries was conducted in order to produce a progress report on the SEPA migration. In Belgium, that survey was carried out in October 2008 in 37 Federal Public Services (FPS) and Public Planning Services (PPS). This showed that the federal government is conducting the migration speedily and

on time. Around 10 p.c. of all public services had already begun to process or send out European credit transfers in 2008. This concerns not only the use of paper credit transfers, but also the use of new XML standards for the processing of electronic credit transfers.

All the other public services conducted the launch on 1 January 2009 or soon after. Almost all the public services have developed a communication strategy or are in the process of doing so. One of the most widely used means of communication is a leaflet describing all the new features of the credit transfer form. About half of the public services will enclose this standard SEPA leaflet when sending out the first invoice accompanied by a European credit transfer.

The total number of SEPA transactions in 2008 is not known, but the public services with the largest transaction volumes were ready to migrate to SEPA on 1 January 2009.

One of the most visible stages in the process whereby public authorities are migrating to SEPA is the switch by FPS FIN. The latter's target group comprises all citizens, and the majority of the credit transfers issued and received by the State are executed by FPS FIN. This service drew up a detailed work plan for its migration scenario. A central management committee, responsible for the SEPA launch and communication, was set up in June 2007. Separate working parties were also established in the various entities by members of the management committee. The public services did not report any significant operating problems at the time of the switch.

4.3 Federal government communication

FPS FIN played a pioneering role in communication and was the only one to conduct a national campaign by sending out a SEPA leaflet to every citizen.

As a Public Service in contact with every citizen, FPS FIN had to give priority to communication. The strategy was prepared on both an internal and an external basis.

In regard to the internal strategy, an initial awareness campaign was first conducted among middle management, with the result that all personnel were informed, in particular by the addition of a SEPA heading on the intranet site. More specific training was then arranged for contact centre personnel responsible for answering questions from businesses and the public, and a list of frequently asked questions was compiled.

A substantial effort was also made in regard to external communication. At the beginning of 2008, the State launched the first and biggest SEPA communication campaign. Around 8 million SEPA leaflets were issued: since April 2008, a SEPA brochure has been enclosed with every tax statement sent to citizens. Notices were also printed and displayed on public service premises. Finally, a SEPA heading was inserted on the FPS FIN website, containing all relevant information on SEPA, links to other sites dealing with SEPA, an extended list of frequently asked questions (FAQ), and a procedure for converting a national bank account number into its IBAN number (<http://minfin.fgov.be/portail2/fr/sepa/index.htm>). This site is often consulted.

The experience of the federal government shows that the use of the European credit transfer causes few problems, except in a small number of cases where citizens encounter difficulties with the IBAN.

When the first credit transfer forms had been sent out, the FPS FIN contact centre recorded a large number of phone calls concerning SEPA, but after a few days the volume of calls quickly subsided and is now small in relation to the number of forms sent out.

4.4 Introduction of the European credit transfer by other public authorities

The other public services are preparing or initiating the introduction of the SEPA credit transfer, and at regional level some of them are already operational, and have been processing European credit transfers for several months. The authorities of the French and Flemish Communities have been ready since 1 January 2009, and the Brussels Capital Region since 1 February 2009. The government of the Walloon Region is continuing to implement the SEPA project and has also added information on its intranet site. The Ministry of the Budget and Finance of the Flemish Region and that of the French Community have inserted an item on SEPA on their respective websites (<http://fin.vlaanderen.be/sepa> and <http://www.sepa.cfwb.be>).

4.5 Legislative work

The timetable for transposition of the payment services directive has been drawn up and the government will set up a new legal framework incorporating the provisions of the current laws on payments and payment services in an overall system.

The transposition into Belgian law of Titles I, III and IV of the payment services directive was prepared by FPS Economy, SMEs, Self-employed and Energy (FPS ECO), as part of its task of creating the conditions for the competitive, sustainable and balanced operation of the market in goods and services in Belgium. The transposition of Title II of the Directive, dealing with access to the activities of payment institutions and their prudential supervision, is being arranged by the Banking, Finance and Insurance Commission (CBFA). Two different draft laws will therefore be submitted to the legislature.

The draft law produced by FPS ECO will incorporate the provisions of the current legislation wherever possible (electronic payments, value dates, etc.). A transposition timetable was drawn up and these two Belgian laws will enter into force on 1 November 2009.

5. Businesses

Now that the government has introduced the European credit transfer form, attention is focusing mainly on businesses with a large volume of credit transfers. A timetable has been drawn up for launching the sending out of invoices accompanied by European credit transfer forms.

After the public sector, it is now the turn of large firms to send out their invoices accompanied by European credit transfer forms.

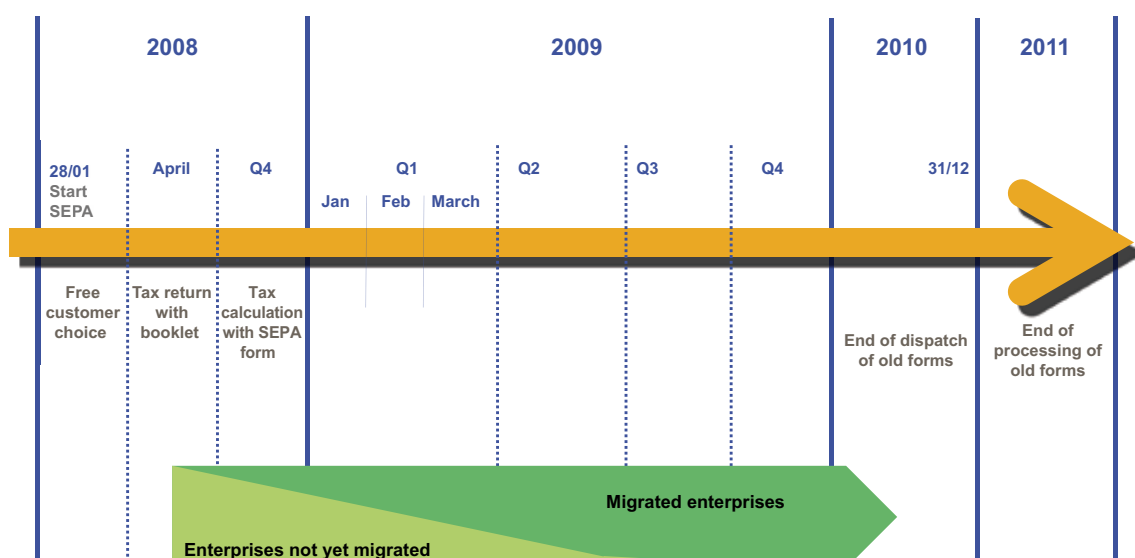
Although only a small proportion of citizens complete the credit transfer form and forward it to their banks, a larger group use it as the model for submitting the credit transfer via the electronic channels provided by banks. A coordinated approach ensures a transparent and smooth migration, with the benefit of the experience gained by the public services. The timetable below shows the dates for launching the use of the European credit transfer by large firms issuing invoices.

In line with the government's initiative, large Belgian firms will start sending out invoices accompanied by European credit transfer forms on a large scale.

The timetable shows that most "big billers" will respond and start using the SEPA format shortly after the public authorities. At the end of 2008, a series of large firms had already begun sending out European credit transfers. Most of them will be ready to do so by mid 2009. This migration, relatively rapid compared to that seen in other countries, and coinciding with completion the migration of payments originated by public authorities, should in principle lead to a considerable rise in the percentage of SEPA payments during the first half of 2009.

A standard leaflet explaining the European credit transfer will be used by at least half of large firms, in order to help their customers to use the European credit transfer.

CHART 4 MIGRATION TIMETABLE FOR LARGE FIRMS ISSUING INVOICES IN BELGIUM



This means that every citizen is bound to receive a leaflet on several occasions, and the migration to the European credit transfer should therefore not encounter too many problems.

After the big billers, other companies will also have to migrate to the European credit transfer.

After the large firms, tens of thousands of other businesses will make the transition. To ensure a structured, uniform approach, the National Bank of Belgium (NBB) has produced a standard leaflet proposing a phased migration plan for businesses. The experience gained by public authorities and large firms in their launch phase will be very useful here.

6. Consumers

As payment service users, consumers will automatically be aware of the changes resulting from SEPA, since they will use the non-cash European payment instruments in parallel with the euro, the European currency. Since the benefits of SEPA are primarily macroeconomic, and the positive effects will only be felt in practice in the medium and long term, it is vital for consumers that the SEPA migration should go without a hitch, as SEPA changes citizens' banking practices without offering any immediate benefits.

Up to now, consumers have had little involvement in the SEPA project. They themselves decide when to switch to the European payment instruments, and will therefore be informed when they start to use them. Thus, consumers will be informed about SEPA when they initiate a European credit transfer via the internet. A leaflet showing the new form will be attached to each European credit transfer.

While consumers' representatives were expecting a national information campaign about SEPA and the changes implied for the consumer, they find that every bank is circulating its own information, considerably impairing clarity and hence consumers' understanding.

Consumers who are accustomed to electronic means of payment (self-banking, e-banking) will have little or no difficulty in switching to the European credit transfers.

It is important that consumers should realise that the "European credit transfer" is not for use solely in cross-border transactions but also as the norm for domestic credit transfers in Belgium.

7. Communication

In Belgium, communication relating to SEPA is issued in "cascade" form: key players in the payment services market start supplying information for their users, who pass it on in turn to other, smaller users.

As shown by table 3, the banking federation initiated communication to individual banks, which then passed on the information to their largest customers, such as the State and large firms. Administrative authorities and then large firms in their turn circulated the information to citizens and other businesses.

The communication strategy centred on a diversified approach per target group, varying the emphasis of the content accordingly.

Table 3 offers an overview of the main communication activities. It sets out the various communication channels used by players passing on information to the various target groups.

For the purpose of communication, a standard leaflet developed by the banking sector can be freely personalised by each player. It was used by the public services and the banking sector and is available free of charge at www.sepabelgium.be⁽¹⁾. On the occasion of their first communication with citizens, the public authorities sent out this folder together with the personal income tax returns, in order to provide information on the new credit transfer form. Around 8 million copies of this leaflet were circulated.

Most large firms issuing credit transfers announced that they will use this leaflet when attaching a European credit transfer to an invoice for the first time. Citizens will therefore receive it several times from several firms. This repetition should help citizens to become familiar with the European credit transfer.

The banks devise their own individual communication strategy, taking account of their customers and staff. This communication may take multiple forms (publications, brochures, websites), appropriate to the various target groups. There are no plans for developing a general communication campaign coordinated at the level of the banking sector as a whole, partly because it was decided that consumers would be informed when making their first payment. Any communication not associated with this specific "moment of transition" is regarded as less effective.

(1) <http://www.sepabelgium.be/fr/node/135>

TABLE 3 SEPA COMMUNICATION ACTIVITIES BY COMMUNICATOR AND BY TARGET GROUP

Target group \ Communicator	Individual banks	Public authorities	Businesses	Consumers
Febelfin	SEPA Workshops CEC Workshop Directives on extranet	SCT leaflet www.sepabelgium.be/	Press release SCT leaflet SCT brochure SDD brochure www.sepabelgium.be/	Press release SCT leaflet www.sepabelgium.be
Individual banks		Brochures designed for customers	Brochures designed for customers	"on-the-spot"
NBB		Steering Committee, SEPA WG Bilateral contacts	Press release Steering Committee, SEPA WG Bilateral contacts with "big billers"	Press release
Public authorities			Press release http://minfin.fgov.be/portail2/fr/sepa/index.htm http://fin.vlaanderen.be/sepa www.sepa.cfwb.be	Press release SCT leaflet www.sepa.cfwb.be

In communication aimed at the general public, SEPA payment instruments are referred to as "European" payment instruments.

One of the most significant forms of communication, albeit indirect, was the renaming of the "SEPA" payment instruments as "European" payment instruments. Thus, the SEPA Credit Transfer was presented to Belgian citizens as the "European credit transfer", and subsequently, the SEPA Direct Debit was announced as the "European direct debit". Use of the adjective "European" is expected to make it easier for the public to accept and understand the change. Other general communication with the public was organised in the form of press releases drafted by the Federal State and the NBB, among others.

8. Conclusions

8.1 The European credit transfer

The introduction of the European credit transfer can be regarded as a resounding success in Belgium.

The first European credit transfers came into use over a very short period without any operating problems. Regarding volumes, the conversion was effected very rapidly in the case of cross-border payments, which logically gained more advantages from the European standard, while the conversion of domestic payments took place much more slowly.

All banks conform to the SEPA standard, and every customer has at least one channel for submitting European credit transfers to his bank. Most banks offer several such channels.

At the end of 2010, European electronic credit transfers should have reached a critical mass in Belgium, and paper credit transfers will from then on only be processed in the European format.

By way of example, the State was among the very first to introduce the European credit transfer in Belgium.

Since September 2008, public authorities have enclosed a European credit transfer with requests for payment sent to citizens, and since 1 January 2009 the Federal State has also used the European standard in its credit transfers for

the execution of outgoing payments. Thus, the State is setting a perfect example, as requested.

Large firms, principally public utilities, will quickly follow at the beginning of 2009, attaching a new paper credit transfer form to each request for payment which they send out.

Next it will be the turn of all other businesses to plan their migration to the European credit transfer, so that their contribution as issuers of payment instructions, in addition to those of public authorities and large firms, boosts the volume of European credit transfers to a critical mass.

For that purpose, a draft standard phased plan was devised on the basis of the experience gained. This plan can be used to facilitate the migration to the European credit transfer for all businesses and institutions, by analogy with the State.

8.2 The European direct debit

The launch of the European direct debit is scheduled for 1 November 2009. Its success will depend on a whole range of factors, such as transposition into the national law of all European countries, adoption by the market, and the time needed for implementation.

Most Belgian banks intend to participate in the EPC's European direct debit schemes, but those schemes will not be installed on the technical platform of the CEC, the Belgian payment system.

In order to start on 1 November 2009, it is necessary to speed up not only the process of transposition into national law of the directive on payment services in the single market, but also the preparations in banks and businesses.

8.3 The European payment card

Given the points still to be negotiated in regard to payment cards, namely the currently inadequate standardisation process and new initiatives for a European payment card, and taking account of the uncertainty over multilateral interchange fees, no fundamental changes are expected where payment cards are concerned.

SEPA was also launched for payment cards in Belgium but only at technical level. At present, there is no commercially viable alternative available, so in practice there has been no change in the case of payment cards.

8.4 Communication

As there was previously no definite strategy, structured communication about SEPA took various forms, differentiated according to the target group, with the emphasis on various aspects of the content in each case. One of the most important means of communication so far has been the distribution of a leaflet describing the form taken by the new European credit transfer. The Federal State made the biggest communication effort, e.g. by means of a leaflet circulated to all Belgian citizens. Subsequently, businesses will also enclose this leaflet with invoices which they send out accompanied by a European credit transfer form.

Banks conducted a number of communication campaigns depending on the type of customer. For the general public, they decided that communication would take place when the customer himself made the transition.

For communication with the general public, the SEPA payment instruments were called "European payment instruments".