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SINGLE EURO PAYMENTS AREA AND ITS IMPLICATIONS ON THE EUROPEAN SMALL AND MEDIUM-SIZED ENTERPRISES

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Abstract: *The scope of this article is to discuss the implications of the Single Euro Payments Area from the perspective of the European SMEs. The current unpredictable and very challenging market situation has not fundamentally changed the fact that payment services need to continue modernization in order to become more flexible, agile and adapt in order to comply with its important purpose in society. SEPA is needed to ensure the new modern payment platform that can enable Europe to move beyond basic services, increase payments efficiency, embrace innovation and integrate further services in the trade process. European Small and Medium-sized Enterprises see SEPA as an important step towards the completion of the internal market, but such a major initiative has to be well planned, must meet the practical needs of enterprises and provide, at least in the long run, positive incentives for all market participants.*

Key words: Single Euro Payments Area, payments landscape, small users, Payment Services Directive.

JEL Classification: E42, F34, G12, G28.

INTRODUCTION

The European payments systems landscape is changing dramatically. Restructuring payments systems to meet European Union demands and the Single Euro Payments Area standards is a tremendous challenge and this is just the beginning of the move towards integration with an increasingly global payments environment.

In its premises, SEPA is an initiative of the aiming at harmonizing the system of cashless payments in the extended Euro zone, creating a coordinated environment of rules, standards and procedures, working as a single domestic payments market in which citizens and economics actors are able to make payments as easily and inexpensively as in their home countries.

The European Commission elaborated in parallel and presented in 2005 the Payment Services Directive-PSD, which has to be implemented into the national law until November 2009. The directive provides the necessary legislation for SEPA and at the same time insure a

liberalization of the European Market for payments services. The PSD is both a precondition for SEPA, especially as regards debt transfers, and an attempt to open the payment services market to operators other than banks.

SEPA is the largest payments initiative ever undertaken within Europe and possibly the world. A program of this size and scale cannot be implemented only by banks and public authorities. Bank customers including businesses of all sizes have the most important role to play, for SEPA will only succeed with their co-operation and commitment. One year and ten months after the successful launch of the first SEPA payment scheme, however, there remains room for improvement as regards SEPA market readiness. Additional efforts will be required to convince customers - in particular the small and medium-sized enterprises community and public administrations - of the benefits SEPA holds for them. Going forward it will therefore be necessary to increase communication efforts with a view to raise SEPA awareness and to get customers actively involved in SEPA implementation.

The creation of the Euro was a great achievement, but is it enough? SEPA is necessary if we wish to have a modern, sophisticated and efficient payment market for the Euro. Without SEPA, it will not be possible for the users of payment services to fully reap the benefits of a common currency and an integrated internal market.

The project's benefits are promoted by its initiators both from the political (European Commission) and the banking (European Payments Council) arenas. The European Association of Craft, Small and Medium-sized Enterprises (UEAPME) too has embraced the vision and acknowledged the potential benefits.

The article is structured to answer two research questions:

- A. *What does SEPA really mean for businesses as small and medium-sized enterprises and how should they prepare for implementing the project? How do they define the most important expectation as regards SEPA?*
- B. *What are the SEPA benefits, opportunities and costs for different SMEs?*

A. The European Payments landscape is changing and SEPA was and still is regarded as a major transformation of this landscape; its magnitude is sometimes compared to that of the Y2K project and the introduction of the Euro combined. In that sense, SEPA is a revolution. Customers, both SMEs and corporate bodies, banks, card schemes and processors, public administrations stand to benefit considerably from the wide range of new opportunities that have opened through the launch of SEPA, as it will promote efficiency, competition and innovation.

Small and medium-sized enterprises(SMEs) represent more than 995 of all European Union enterprises on a unit base (European Central Bank, 2009). Most EU SMEs conduct business locally

and expect financial institution to ensure a harmonization of the payments systems. In principle, generating competition and transparency, this initiative will have positive consequences for the various players in that market. SEPA will profoundly change the current systems of transfers, standing orders and card payments.

SMEs will benefit somewhat less. They have optimized their payments operations to deal with country-specific payments instruments and practices. Migration to SEPA instruments will bring clear benefits only in those countries where the quality of payments products is currently lower than the new European credit transfer or direct debit payments. In other countries, especially at the beginning, the SEPA instruments(developed for the euro market as a whole) might not match the rich domestic functionality developed in countries over the last 30 years. So SMEs will, on a country-by-country basis, be less prepared to invest in migration to SEPA standards. Attractive pricing would be an important driver in migration for adoption. Clearly this issue will complicate the transition process.

Transfers. Transfers within the euro area have been performed under the same conditions, stipulations and security as national transfers. The use of International Bank Account Numbers(IBANs) for all payments instructions also affect SMEs processing programs. The use of the Bank Identifier Code(BIC) also necessitates adjustments and requires a single investment from SMEs to adapt their software. This is comparable to the introduction of the euro and is a reminder that society, and the environment in which SMEs operate, is continuously evolving. Every SME, large or small, is expected to keep in step with these developments. The disappearance of the structured message that is the link between the bookkeeping and the transfers threatens to cause more problems. Transfers with a free message make automatic processing of transfers virtually impossible.

Direct debits. For payments by direct debit, an order is no longer given to the bank, but the contracting party, where debtors will be able to protest against such payments for a period of six weeks instead of four days. This implies longer-term uncertainty for the self-employed and SMEs that allow payments by standing order.

SEPA is not a question of yes or now, but rather a question of how? The changes described above can be implemented by every SME through effort and resources. From now on, SMEs will be able to execute and receive payments by means of transfer and standing order with virtually no problems within the euro area, Here, too, every SME has to keep in step with the changing environment in which they operates.

Card payments. SMEs will experience the most far-reaching SEPA changes in card payments. Until now, there has been too little competition in the area of terminals and none at all in

the field of transaction processing (for example, Banksys in the Belgian market of card payments). Opening up this market must lead to better prices for payments terminals as well as technical assistance. Increasing competition will not only have a positive effect on the price, market players will also start to look for more attractive formulas and new ideas in other fields in order to differentiate themselves.

Many companies are small users, for example, SMEs who have a few transactions a month and therefore significant fees per transaction, so that competition may reduce costs for this category of SMEs. Since price policy is only one way to convince them to take their chance with a particular market player, service and security will increasingly be leveraged post-SEPA. One single large European market should stimulate innovation in the field of technology, security and service. Thanks to a harmonized European payments infrastructure, it will be possible to implement efficient e-solutions. By 2010-2012, e-payments will account for 95-99% (Eetvelt, 2006) of the total of volume and there will be a common data formats, identifiers and references. For SMEs that rarely have treasury systems or sufficient resources to be able to have real-time visibility, these new e-solutions could be a real help and enable better financial reporting and planning. Cash flow data now outrank profits and loss data as lending criteria, so access to finances could be improved because banks could manage this data as value-added service.

A lot of SMEs do not charge interest for late payments or grant longer credit terms for fear of losing their customers. Corporate bodies benefit from this free financing compared to the conditions they would be granted by a bank, perhaps more automated e-payments will change this. A lot of SMEs cannot pay their suppliers before they have been paid by their customers and it remains to be seen if customers will be able to pay on time, in particular those who have no or bad access to finance. It is a vicious circle.

Furthermore, the standardization and automation of invoices might reduce the number of mistakes they contain. According to a study by Atradius, in the United Kingdom, 82% of invoices include an incorrect address. Two-thirds of companies send the wrong invoice back to the supplier and one-tenth refuse to pay them. As a result, invoices with mistakes are paid on average 15 to 30 days later.

It is essential that SMEs inform themselves and take part in the debate through various associations, institutions or websites and thus lead the final decisions regarding SEPA in such a way that their interests are not left out: they should not be passive. Then being aware of what could be possible with SEPA, SMEs could make it happen by expressing their needs and expectations to the banking industry. If there is a demand, supply should follow.

The most important expectations of European small and medium-sized enterprises as regards SEPA are:

✚ cross-border payments services in general must become cheaper and more cost effective without increasing the costs for national payments in general. This must go beyond Regulation 2560/2001 (European Association of Craft, Small and Medium-sized Enterprises, 2007), which regulates the price for smaller amounts of cross-border payments independently from the real cost, stating that the price for cross-border payments must not increase the price for similar national payments. Most of Europe's SMEs would not support a new system otherwise;

✚ SEPA must provide the same level and quality of services than the existing national systems as regards credit and debt transfers as well as payments cards. This includes features like security, user friendliness;

✚ SEPA users should get basic service level on basic price and there should be open competition for extra services and the choice between different level of services.

B. Small and medium-sized companies are following in the wake of large companies, in taking advantage of the possibilities offered by the Single Euro Payments Area, but still too slowly. All over Europe, corporate bodies are relatively well prepared for the transfer to SEPA, but SMEs are providing cause for concern. They often lack the resources and expertise for mapping out what the transfer to SEPA might offer (Zago, 2007).

Figure 1 SEPA: a facilitator for optimization around the payment

Opportunities	Challenges
<ul style="list-style-type: none"> • optimization of in-/external processes based on uniform structures and standards in Europe; • less dependence on local partner banks and thus lower costs; • greater competition among providers- especially countries with low volume or with less developed payment landscape; • possibly higher „straight-through processing“ rate in cross-border business through standardization; • larger product offering, e.g. in the area of e-invoicing. 	<ul style="list-style-type: none"> • operative risk of switchover of customer relationship to SEPA-compliant products; • customer loss during switchover to SEPA-compliant products; • necessity to create new processes, e. g. mandate management; • conversion of IT platforms and systems required.

SEPA will also offer benefits to SMEs and retail banking customers by using the new instruments:

- ✚ Processing of SEPA transactions domestic and international at the same favorable terms and conditions as in the domestic market;
- ✚ Simplifying of purchase of goods and services within European countries;
- ✚ Increasing financial control through transparency and common procedures;
- ✚ Opportunities for the enlargement of business segments for SMEs because of common secure and pan-European direct debit procedures.

But with the new opportunities come also the threats for SMEs. Most of Europe's SMEs, especially small and micro enterprises, act mainly on local and regional markets and typically process only a few cross-border payments. These companies are accustomed to their national payments systems and will not opt for SEPA, if SEPA will end-up providing better and cheaper services for cross-border payments, but increasing the costs for purely national payments (Bartelt, 2007). The banking sector must make sure that SEPA offers as well some added value to consumers that act only or mainly at domestic level.

Some features for payments services, like the extension of the period for re-calling debt transfers or missing possibility to send structured remittance information with transfers, will make SEPA less attractive than the existing payments systems. Such steps back must be avoided, if SMEs are expected to opt voluntarily for SEPA.

As regards payments cards SMEs suffer from very little competition between operators and terminal providers and technical assistance. SEPA will only be accepted by the market if it contributes to more competition, better offers and lower prices for these services. If SEPA is to create a European monopoly for card operators, the regulators and competition authorities should take all the necessary steps to avoid market restrictions and overpricing.

CONCLUSION

Following the introduction of the euro, the creation of the Single Euro Payments Area is a natural progression within the payments market. However, in spite of its obvious goals, SEPA is still shrouded in mystery. After almost two years since the first deadline for SEPA instruments (1 January 2008) only a few SMEs really understand this project and its likely impact on Europe. According to the European Association of Craft, Small and Medium-sized Enterprises-UEAPME, the reason behind the very low number of SMEs switching to SEPA features is not the lack of information, but rather the lack of attractive and competitive offers from banks.

It is clear that SEPA is a massive undertaking with immense political and economic implications, huge potential and customer benefits and with the capability of delivering a shake-up

in the European banking industry. It is equally clear that there is a correspondingly high risk of failure, poor benefit realization and a lack of urgency.

SEPA success largely depends on whether it will deliver a quantitatively equivalent or better product in the field of electronic payment-at the same time or lower price-not only for consumers but also entrepreneurs. This should be valid for all types of entrepreneurs, large or small, operating in the international or domestic market.

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