
Impact of the Implementation of the SEPA Project on SMEs

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Abstract:

SEPA – Single European Payments Area is a project that has been running since 2002 in the European Economic Area (hereinafter "EEA") and Switzerland and concerns the rationalisation of domestic and cross-border payments services. It has been implemented by banks and other entities, providing the service of domestic and cross-border payments, and it is used by entities who are clients of the stated institutions. This paper will use the method of induction and analysis to point out the potential consequences of its implementation for the segment of small and medium-sized enterprises (hereinafter "SMEs") in the Czech Republic (hereinafter "the CR"). A hypothesis was formed, based on an assumption that "wide-spread application of the SEPA project will simplify, and make cheaper, cross-national payments in particular for the SME segment in the long term".

Key Words: SEPA, payments services, SCT, SDD, SEPA cards

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1. Introduction

The introduction of a common currency, the euro, and subsequently the use of the common currency in the Eurozone was the main impulse for creating a common payment area for cashless payments. A project, named SEPA - Single Euro Payments Area, was established with the aim to create a common area for payments in EUR. The main mission of SEPA was to abolish borders and implement cashless payments in euro (Et al., 2013). In SEPA, consumers, companies and other economic entities accept and receive payments in euro within their individual countries, and between the countries, under the same terms and conditions and with the same rights and duties, regardless of their geographical location. (Schlossberger, 2012). The aim of the SEPA project is to harmonise payment services in the EEA = European Union countries (herein the "EU") + Iceland, Lichtenstein, Norway, Monaco and Switzerland. For the reasons stated above, the project is supported by the European Central Bank (hereinafter the "ECB") and the European Commission (hereinafter the "EC"). The European Payment Council (hereinafter the "EPC") created common rules and implementation procedures for putting SEPA into practice. A major milestone for the implementation of SEPA in practice was the adoption of Regulation (EU) No. 260/2012 of the Commission and the European Parliament, establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No. 924/2009.

In the CR the implementation of SEPA payment tools into practice is carried out through cooperation between the Czech National Bank (hereinafter the "CNB"), the Ministry of Finance ("MF") and the Czech Banking Association ("CBA").

2. Literature Review

Apart from the author of this paper, [e.g. Schlossberger, O., 2012, "Payment Services" (Management Press, Prague) or Schlossberger, O., 2011, "Cross-border Payment System Cuts State Boundaries", an anthology from a conference entitled "Hradecké ekonomické dny", 286 – 291, (Gaudeamus, Hradec Králové)], only a few other authors in the CR are dealing with the issue of SEPA, mostly on a general level, focusing on the issue of financial markets. For example, prof. Jan Jílek in his publication Jílek², J., 2013, "Finance in Global Economics – Cash and Payment Transactions" (GRADA, Praha) or a publication by a team of authors, prof. Mejstřík³, M., Pečená, M. and P. Teplý, 2014 "Banking in Theory and Practice" (Karolinum, Praha). SEPA, with a focus on the legal issue of the project and regulation of payment services, is covered in a publication by authors Prof. Týč and Mr Kyncl – Kyncl, L. and V. Týč⁴, 2013, "Regulation of Online Financial Services

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in the European Union". The issue of European payment transactions was also discussed by Prof. Michal Tomášek, focusing on the legal issues in this area, in, for example, Tomášek, M., 1997, "Payment Transactions in the European Union – Part I" (Komerční banka and Banking Association, Prague).

To name some foreign publications, we should mention a publication from Slovakia, published several years ago, Klimiková, M.⁵, 2008, "Payment Transactions" (MARADA, Bratislava, SR), which discussed the use of SEPA project results in companies (see p. 138 an.). From the several publications discussing SEPA as a project and its basis from an information point of view, we should point out Prof Jürgen Bott⁶, 2009, "The Single Euro Payments Area: New Alliances Required to Tip the Market" (ECRI, Research Report No. 10), covering, amongst others, incentives for the providers of these payment services and their users when transferring to SEPA products.

3. SEPA – Project to Rationalise Payment Contact

The impact of the SEPA project on small and medium-sized enterprises shall be researched, and therefore it is important to define the terms. In the EU countries SMEs represent major economic subjects, in terms of the number of employees they represent 99% of all businesses and generate 70% of GDP in the EU, and 37% in the CR. SMEs are defined by the EU, based on the number of employees and financial turnover:

- Micro company - up to 10 employees, the annual turnover does not exceed and/or the annual balance sheet total does not exceed 2 mil EUR.
- Small company - up to 50 employees, the annual turnover does not exceed and/or the annual balance sheet total does not exceed 10 mil EUR.
- Medium-sized company - up to 250 employees, the annual turnover does not exceed 50 mil EUR and/or the annual balance sheet total does not exceed 43 mil EUR (Kašík, & Havlíček, 2012).

A project for the rationalisation of payments can be very significant for this segment since, as mentioned by (Břečková, & Havlíček, 2013), "the number of tools for managing the currency risk has been developed over time where most of them are on the speculative basis to some extent. It, however, requires either deep dependency on a bank expert or a profound knowledge of the whole global context and, of course time. All these aspects are not considered to be generally well managed by SME segment of companies, therefore managing the currency risks is one of the critical areas in this type of enterprises doing."

3.1 Historical Context of SEPA

⁵ Doc. Ing. Mária Klimiková, Ph.D., Associate Professor at the University of Economics in Bratislava.

⁶ Professor Dr. Jürgen Bott of the University of Applied Sciences in Kaiserslautern.

Cross-border payments impact the legislation of at least two countries. The legislations can differ within the conditions of a single internal EU market since the banking right of the European Community (hereinafter the "EC") was not sufficiently harmonised twenty years ago. It was not even possible to harmonize legislations at that stage since every member state was running its own autonomous currency and banking policy, and also the supervision of the financial market, until the third phase of the European currency union was launched. The differences between the legislations in different member states presented a barrier to the free movement of capital within the EU which was shown, and still is shown in countries outside the Eurozone, by high prices for cross-border payments compared to domestic payments (Tomášek, 1997 and below, Tab. 1)

Therefore, the European Commission made a breakthrough and in February 1990 it adopted Recommendation of the European Community on the transparency of banking conditions concerning cross-border financial transactions no. 90/109/EEA. This legal document, even if only a recommendation, can be considered of vital importance since it determined six principles for making cross-border transactions⁷. These principles were determined to increase the transparency of conditions for cross-border transactions, in particular of consumers and small and medium-sized enterprises. These principles can be characterised as follows (Schlossberger, Havlíček, 2013):

- 1) Clients must be given preliminary information on the terms and conditions under which cross-border financial transactions will be made.
- 2) Clients must receive follow-up information on fees for the transactions made and on the surcharge for converting currencies.
- 3) When dividing the costs associated with the transaction between the payer and the payee, the payee must be guaranteed that he/she will receive the payment in the amount stated on the payment order.
- 4) Unless stated otherwise, banks must make payment orders within two business days of receiving the payment, and if they default they must pay at least some of the costs of the operation.
- 5) Unless stated otherwise, the payee's bank must make a payment order no later than on the business day following the day of receiving the payment.
- 6) Banks that make cross-border payments must be able to flexibly respond to clients' complaints, and in case of court disputes they must ensure that clients can enforce their rights and make claims at the relevant state authorities set up for that purpose.

Considering the fact that the self-regulation function in the banking sector could not work as proposed by the EC, the EC proposed and in 1997 the European Parliament

⁷ Any electronically processed payment transaction initiated by the payer or the payee, or via the payee, if the bank or other provider of payment services of the payer and the payee are located in different member states of the EEA and the transaction is made in the currencies of these countries.

approved Directive No. 1997/5/EC of the European Parliament and of the Council on cross-border transfers. This Directive, although curt and relatively not very comprehensive, can be regarded as a milestone for payment instruments such as cross-order payment orders. This is the first generally binding legal document for inter-bank cross-border payments which is binding for EU countries. Its application in the legislation of individual countries represents a united approach to cross-border payments in the area of smooth payments (Schlossberger, 2007). In order to support clearing of cross-border payments, the ECB established an inter-bank payment system, TARGET, in 1990 (Schlossberger, 2012). This started the direct regulation of cross-border payments. Another legal standard which significantly affected the area of regulation of pricing policies for smooth cross-border payments was Regulation No. 2560/2001/EC of the European Parliament and of the Council, on cross-border payments in euro. Since the EC declared that it would continue regulating payments in future, the EU banking sector decided that it would be advisable to respond to the situation. Banks declared that they would like to take over the initiative and proceed in compliance with the EC via self-regulation. In March 2002, representatives of 42 European banks met and created a body, called the EPC - European Payments Council (Chuchvalcová, 2007). These banks set out the task to create a Single Euro Payment Area - SEPA - no later than by 2010.

3.2 SEPA in 2015

When analysing the current situation of the SEPA project, we must consider valid and effective legal regulations which the EC, in conjunction with the ECP, enforces against all EEA countries. The below-stated legal standards do mention cross-border payments, however, in their preambles they openly support and enforce the implementation of procedures determined by the SEPA project, in particular against entities in the Eurozone. The current legislation for cross-border payments is built on three, alternatively four main legal regulations – Directive No. 2007/64/EC of the European Parliament and of the Council on payment services on the internal market (hereinafter the "Directive") which had to be reflected in the legislation of all EU member states, and the EEA states. The other two, alternatively three major standards were published as regulations, which means they are directly applicable to all member states. The first of them is Regulation No. 924/2009 of the European Parliament and of the Council on cross-border payments in the Community and repealing Regulation (EC) No 2560/2001 (hereinafter "Regulation 924"), and the other, completing, regulation was published as Regulation No 260/2012 of the European Parliament and of the Council (EU), establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009 (hereinafter "Regulation 260") which was amended in detail by Regulation No. 248/2014 of the European Parliament and of the Council on 26 February 2014 amending Regulation (EC) No. 260/2012 as regards the migration to Union-wide credit transfers and direct debits

The publication of all three regulations, which act as the main regulations for the selected payment services, was extremely significant as, amongst others, it stipulated

a final deadline for the migration of credit transfers and direct debits to formats valid for SEPA products, both for cross-border payments and for domestic payments. The regulation mentions so-called **reachability and interoperability**⁸. Within the context of European regulation, reachability is seen as the ability to respond to a requirement to process a respective payment order by the provider of payment services of the other party, both for domestic but also for cross-border payments. Interoperability can be seen as the ability of the payment services provider to provide its services in compliance with the rules of the relevant clearing system for domestic and cross-border payments. In practice, this means that a client, when complying with his/her financial obligations in euro, fills in a payment order and the does not have to use a specific format for the payment order. There is only one format both for domestic and cross-border transfers, practically without any limitation on the amount of the payment. Another major regulation is a price regulation. Article 3, Regulation 924 stipulated that a fee for cross-border transfers in euro (in fact SEPA payments for members of the SEPA project or euro payments for other providers within the EEA) up to 50 thousand euro had to be the same as for domestic transfers in euro. This ceiling was cancelled by Regulation No. 260.

The date of migration to this status was stipulated as 1 February 2014, or 1 August 2014. From this date onwards, all entities providing payments services, such as credit transfers and direct debits in the Eurozone, should be accessible and interoperable regardless of the fact of whether they joined the SEPA project voluntarily before the effectiveness of these dates or not. The CR is not a Eurozone country, and therefore this duty does not apply as yet for the providers of payment services. Nevertheless, if it does join the SEPA project, the same rules will apply with regards to cross-border transfers denominated in euro. For domestic payments in Czech crowns or cross-border payments made in currencies other than euro, reachability and interoperability do not apply. However, if payments are made in currencies of EEA countries, these are cross-border payments which are not payments regulated as SEPA payments, however, they are subject to a regulation reflected in Act 284/2009 Coll., on Payments (hereinafter the "PA").

3.3. SEPA and SME

In this part, the impact of SEPA products is discussed in connection with SME clients using these payment services. Since the CR is not a Eurozone country, the schemes for processing domestic and cross-border payments can differ. There might be different prices for the services provided. Currently, Eurozone countries, and countries outside the Eurozone, may use up to four types of fees:

- a) Fees charged to clients for foreign payments,
- b) Fees charged for SEPA payments and euro payments (i.e., payments in euro to Eurozone countries and payments in euro towards member banks of the SEPA projects outside the Eurozone whose countries are in the EEA - this applies to all domestic and cross-border transfers),

⁸ Art. 3 and 4, Regulation 260

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- c) Fees for cross-border transfers between EEA states in a currency other than euro,
 - d) Fees for domestic transfers charged by countries outside the Eurozone.

Another major factor each client is interested in, and the SMEs are no exception, are the deadlines for payments. The situation is a bit easier in this regard since the PA regulates the deadlines for all domestic and cross-border transfers. The only deadlines to speak of are deadlines for foreign payments (which are not regulated and can differ for different providers and different territories in the world) and deadlines under the PA, which are uniform regardless of the payment currency for all countries in the EEA.

Clients from the CR should find out from their providers if they are members of the SEPA project or not, and to consider if their business partners are from a Eurozone country, and if their service providers are involved in the SEPA project, providing they are situated outside the Eurozone countries. Then it is possible to deduce which type of fees will be applied by the providers of payment services. The deadlines for payments services are determined as D+1, which means that from the moment the payer's account is burdened in one of the EEA countries by one of the providers, the transaction must be cleared by the next day for the benefit of the payee's account in the same or another EEA country. In case of conversion from one currency, one extra day is allowed. The same deadlines apply for SEPA payments, which are in fact a sub-set of cross-border payments.

So that clients from the SME sector can better understand the significance of the SEPA project and take advantage of its benefits within the CR, we must focus on (Et al., 2013)⁹:

- Explanation of requirements, standards and deadlines for introducing SEPA,
- Information for SMEs concerning the new mandatory standard XML for some of them,
- Information on the need to update software in accordance with the new standards,
- Necessity to adjust invoices so that they include IBAN,
- Acquire knowledge about new rules for direct debits,
- Explanation of differences between domestic, euro SEPA and euro cross-border payments, and generally between cross-border payments and foreign payments,
- Which payment products are available and their advantages.

4 Research Results and Potential Discussion

⁹ Or according to Jürgen Bott (2009). „The Single Euro Payments Area: New Alliances Required to Tip the Market“. Brussels: ECRI, Research Report No. 10

In view of the fact that the deadlines for SEPA payments are identical to the deadlines for cross-border transfers or domestic payments as stated above, the further analysis will focus on the comparison of fees for SEPA by selected providers of payments in all three payment areas. It is interesting that none of the monitored banks states in their tariff list a fee for cross-border transfers and considers them to be foreign payments. With regard to fees and their amounts, this can be seen as legitimate, however, in terms of the actual processing of the payments, they must be processed within the deadlines determined by the PA, and clients, i.e., SMEs, must be informed accordingly. Table 1 shows the fees of selected banks on the CR market that are stated in their tariffs as of 20 July 2015 and that are valid for SME clients. These are basic fees; most banks do not reflect the type of payment order, whether done electronically or in a paper format. This is not of importance when researching the approach of banks to the implementation of fee policy for SEPA payments. However, clients, including SMEs, must count on the fact that if a payment order is made in a paper format, the bank can charge a surcharge on the basic fee of up to several hundred Czech crowns (for example, for ČSOB or ČS the surcharge amounts to CZK 250). For domestic payments, clients are also charged a surcharge for paper formats (e.g. KB CZK 63, ČSOB CZK 47 and CZK 15 by ČS).

Table 1. Fees for selected payment services charged by selected banks in the CR

Service and fee/bank	KB ¹⁰	ČSOB	ČS	Fio	Equa	Sberbank
Foreign payment – payment received + SCT exceeding 50 K euro	0.9 %, min. 225, max. 1,095	1 %, min. 150, max. CZK 1,000	1 % min. 100, max. CZK 1,000	100 ¹¹	150 ¹¹	0.9 % of the amount, min. 150; max. 900
Foreign payment - outgoing payment + SCT exceeding 50 K euro	0.9 % min. 250 max. 1,500	1 %, min. CZK 150, max. CZK 1,000	1 % min. 220, max. CZK 1,500	200 ¹¹	500 ¹¹	1 %, min. 300; max. 1,700
SCT - received up to 50 K euro	145	150	100	20 ¹²	100 ¹²	150
SCT – outgoing up to 50 K euro	195	250	220	20 ¹² ₁₃	200 ¹²	250
Received	6	6	x ¹⁴	0		5

¹⁰ Tariff valid as of 28 July 2015.

¹¹ Not applicable for SCT exceeding 50 thousand euro.

¹² Limit for SCT is not restricted.

¹³ SCT is free of charge to Slovakia.

domestic payment in local currency						
Outdoing domestic payment in local currency	6	3	5	0		5

Source: Bank tariffs as of 20 July 2015

The overview shows that big banks make a major distinction between their fees for foreign payments, SEPA transfers and domestic transfers. Four of the six researched banks inform their clients that SEPA payments exceeding 50K CZK will be charged as foreign payments. As stated above, the limit for cross-border payments and the regulation of the fees for these payments in Eurozone countries was cancelled; it was not applicable for countries outside the Eurozone anyway. Therefore, some of the banks take advantage of this situation, despite the fact that, according to the author, this behaviour is not exactly ethical towards their clients, and they charge for a SEPA payment a double fee, up to the level of a foreign payment. This approach cannot be considered entirely ethical even though it is not in conflict with valid European law. Banks simply took advantage of this opportunity since for countries outside the Eurozone the condition of identical fees does not apply, as explained above. Therefore, one can recommend to clients and SMEs that they consider which bank to use for making payment within Europe in euro. If they opt for a bank that has a better fee for SEPA payments, they can save quite a significant amount of money¹⁵.

When considering how to pay, or whether to pay within Europe using SEPA payments, we can recommend for SMEs that they observe the following procedure (under the assumption that the bank used by an SME is a SEPA bank):

- a) To ask for information or to find out whether the bank used by their business partners is a SEPA bank (this does not concern Eurozone countries - these are automatically in compliance with SEPA - see above)¹⁶,
- b) To read the bank tariffs and find out about the fees for SEPA payments,
- c) To verify deadlines for SEPA payments, whether they are truly D+1 when the SME and the business party have euro accounts in their banks.

¹⁴ Not stated under payment transaction services.

¹⁵ Considering the scope of this paper, a case study proving this statement would exceed its scope.

¹⁶ Or it can be found out, for example, by SCT members, here:

http://epc.cbnet.info/content/adherence_database

Summary

This paper discusses the method of induction and analysis of the possible consequences of full implementation of a SEPA project for the SME segment in the CR. A hypothesis was determined based on the assumption that "the wide-spread application of the SEPA project will simplify, and make cheaper, cross-national payments in particular for the SME segment in the long term". This hypothesis was, according to the author, proven, however, only for payments in euro. This is because the SEPA project was based on the assumption that the same rules will only be determined for euro for domestic and cross-border transfers, and other currencies were left out by the project. The EC, in conjunction with the ECB, supported the development of the SEPA project by applying generally valid legal regulations of European law, and started its regulation, including partial regulation of cross-border payments of credit transfers and direct debits.

It can be stated that if an SME is a client of a bank in the CR which is a member of this project, this client is more likely to save costs associated with fees for making payments in euro to EEA countries, providing their business partner banks with a bank which is SEPA compliant. The issue of determining ceilings for SEPA payments by some of the providers, in particular bigger banks, is still a problematic issue. It can also be stated that, at present, domestic payments in the CR do not fall under SEPA regulation.

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