

SHORTCUT TO THE SEPA DIRECT DEBIT SCHEMES

BENEFITS

➔ The SEPA Direct Debit schemes create for the first time a payment instrument that can be used for both domestic and cross-border collections throughout the 32 SEPA countries.

➔ Advantages for creditors:

- ☑ Collection of domestic and cross-border direct debits across 32 countries
- ☑ Ability to determine the exact date of collection
- ☑ Payment completion within a pre-determined time cycle
- ☑ Straightforward reconciliation of payments received
- ☑ Ability to automate exception handling (refunds, returns, rejects)

➔ Advantages for debtors:

- ☑ Simple means of paying bills throughout 32 SEPA countries
- ☑ Easy reconciliation of debits on account statements
- ☑ No-questions-asked, fast and simple refund procedure

SEPA CORE DIRECT DEBIT

➔ The **SEPA Core Direct Debit scheme (SDD)** involves the following features:

➔ The scheme applies to transactions in euro. The scheme allows a creditor to collect funds from a debtor's account provided that a signed mandate has been granted by the debtor to the creditor. The debtor and the creditor must each hold an account with a credit institution located within SEPA; the credit institution executing the direct debit transaction must be a scheme participant. The scheme may be used for single (one-off) or recurrent direct debit collections, the amounts are not limited.

SEPA DATA FORMAT

➔ The ISO 20022 message standards (the SEPA data formats) are binding between banks. It is recommended that business customers use the SEPA data formats to initiate payments. However, banks may continue to accept other formats from customers for the initiation of SEPA payments.

IBAN AND BIC

➔ IBAN (International Bank Account Number) and BIC (Bank Identifier Code) are the only permissible account and bank identifiers for SEPA transactions. Whereas until now they have been used only for cross-border payments in most countries, with SEPA this applies to domestic payments as well. Therefore, the creditor has to provide IBAN and BIC of the account that should be debited to his bank.

MANDATE

➔ A mandate is signed by the debtor (payer) to authorise the creditor (payee) to collect a payment and to allow the debtor bank to pay those collections (debtors are entitled to instruct their banks not to accept any direct debit collections on their accounts). The mandate can be issued in paper form or electronically. The mandate expires 36 months after the last initiated direct debit.

E-MANDATE

➔ The SEPA Direct Debit schemes include the possibility to create mandates through the use of electronic channels. The e-mandate brings further advantages to debtors: the debtor avoids the inconvenience of printing, signing and mailing a paper form to the creditor by using a fully electronic process. The e-mandate facility is based on secure, widely used online banking services of the debtor bank and is an optional service offered by banks.

PRE-NOTIFICATION

⇒ The creditor must send a so called pre-notification, an invoice for example, to the debtor at the latest 14 calendar days before collecting the payment, unless a different time line has been agreed between the debtor and the creditor. The pre-notification includes the date and the amount of the collection. The pre-notification must be send only once also in case of recurrent direct debit collections.

DUE DATE

⇒ The scheme allows all parties of the transaction to anticipate the precise date (due date) when their account will be debited or credited, respectively; the due date is assigned by the creditor.

DIRECT DEBIT TO CSM

⇒ Initial direct debits under a mandate or one-off direct debits are sent to the clearing and settlement mechanism (CSM) five business days prior to the due date; subsequent direct debits under a mandate must be sent to the clearing system two business days prior to the due date.

REFUNDS AND RETURNS

⇒ In accordance with the EU Payment Services Directive (PSD) the scheme defines a refund right for the debtor, e.g. the debtor can recall an authorised transaction during an eight week period after the due date without having to give a reason for the recall. For unauthorised transactions, this right to a refund extends to 13 months after the due date. Any returns by the debtor bank — for example, if the account has been closed — must be effected no later than five business days after the due date.

CREDITOR IDENTIFIER

⇒ Each creditor will be identified with a creditor identifier at SEPA level. This identifier allows the debtor and the debtor bank to filter each direct debit and process or reject the direct debit according to debtor instructions. Creditors will have to request this identifier through their bank according to local practice.

SEPA B2B DIRECT DEBIT

⇒ The **SEPA Business to Business Direct Debit scheme (B2B)** serves as the basis for the development of specific direct debit products and services that allow business customers in the role of debtors (payers) to make payments by direct debit as part of their business transactions.

⇒ The most important differences between the SEPA Core Direct Debit scheme and the SEPA Business to Business Direct Debit scheme are:

☐ In the B2B scheme the debtor is **not** entitled to obtain a refund of an authorised transaction.

☐ The B2B scheme requires debtor banks to ensure that the collection is authorised by checking the collection against mandate information; debtor banks and debtors are required to agree on the verification to be performed for each direct debit.

☐ A debtor bank cannot offer the B2B scheme to a debtor who is a “consumer” under the law of the country where that debtor bank is providing the payments services. By the same token, a creditor cannot offer bill payment via the B2B scheme to a customer who is a consumer.

☐ Responding to the specific needs of the business community the B2B scheme offers a significantly shorter timeline for presenting direct debits and reduces the return period.

LAUNCH DATE

⇒ The introduction of the SEPA Direct Debit schemes requires a uniform EU wide legal framework as defined in the EU Payment Services Directive (PSD). The SEPA Direct Debit schemes go live on 2 November 2009, the deadline for all EU member states to have transposed the Payment Services Directive into national law.

As of November 2009, banks gradually roll out SEPA Direct Debit services. In a step-by-step process all banks in the euro area offering direct debit services today will become reachable for SEPA Core Direct Debit by November 2010. The recent EU Regulation for cross-border payments in euro mandates the timelines for banks to create reachability for European direct debits.