
THE SINGLE EURO PAYMENTS AREA - THE POTENTIAL OF CASHLESS PAYMENTS DEVELOPMENT IN ROMANIA

PhD Candidate Mirela Gabriela PALADE

Abstract

The creation of the single euro payments area is the natural outcome of the creation of the monetary union and the single currency adoption. This large project that aimed at standardizing and harmonizing the payments instruments, the legal framework, the business rules, etc might represent an opportunity for developing cashless payments in Romania.

Key words: cashless payments, payments instruments, direct debit

One of the three European standardised payments instruments is the direct debit, which is almost non-existent in Romania in the inter-bank services range. In order to reduce the gap compared to the level of development of the EU cashless payments industry, the direct debit might prove to a special opportunity, which needs to be explored.

The creation of the single euro payments area is the natural outcome of the creation of the monetary union and the single currency adoption. SEPA is an initiative for the payments industry but aiming to make complete the European political agenda of creating an internal market and a monetary union among the State Members. SEPA general objectives are found in the Lisbon Agenda, stating that the EU internal market must become the most competitive knowledge-based economy.

After the euro launch in 2002, the European Commission and the European Central Bank – the political supports of the SEPA initiative – concentrated on harmonising the euro payments markets that sum up to over 50 billion electronic payments per year and between 100 and 200 billion transactions /year in cash. The integration and the harmonization of the multitude of the national payments systems existing in the EU was the logical movement by which the euro can truly become a single and fully functional currency.

As part of the SEPA initiative, the European banks have taken the leading role, choosing self-regulation. Thus the European Payments Council was formed, as the decision-making body that coordinated the whole self-regulation process. The final objectives of the programme shall be reached only when all stakeholders, whether banks, corporates, public administrations etc will adhere to the SEPA vision and perceive the opportunities and the advantages and take the necessary steps.

SEPA – euro single payments area– is an area where no more differences between domestic and cross-border payments shall exist, where payments will be made by standardized instruments (credit transfer, direct debit, cards), where there

will be standards, business rules and common practices. All these will come to fruition in a harmonised legal framework for payments at the level of the entire European community (27 Member States) plus Switzerland, Iceland, Monaco, Norway and Lichtenstein.

On the long run, SEPA wants to stimulate the development of a cashless electronic payments market by end-to-end straight through processing of all SEPA payments transactions and using exclusively electronic instruments and most important, associating payments to value-added services both before and after settlement. Also on the long run, it is desired that the SEPA instruments should replace the existing ones, existing in each Member State, so that all payments made in the EU and the aforementioned states become domestic payments and be treated as such, regardless of the place in Europe where the counterparties might be.

Once SEPA is created, it will be possible to make an euro payment between any of the accounts opened in the EU as easy as a domestic payment. Agreeing upon and thereafter using common standards, shorter settlement periods and simplifying processing will lay the premises to improve cash flow for companies, to reduce their costs and facilitate the access of the economic operators on new markets. It is to be expected to develop new payments services to differentiate the payments services providers towards the consumers.

The SEPA implementation will impact all parties in the payment chain: banks, payments infrastructures, public administrations, retailers, corporates, individuals etc. As well, it will create the conditions for growing competition among payments services providers. SEPA will impose to the payments services providers and the users of such services to adapt their strategies and behaviour.

Regarding banks, they will have to make thorough analyses and choose between outsourcing certain activities in the payments services chain, even the entire payments processing business and upgrading the payments infrastructure that they own. Meeting the SEPA requirements might be an opportunity to renew the infrastructure, if they choose so, while creating new services. SEPA may be benefited from if the EPC standard schemas are used to implement new services adding value to the business, thus avoiding being stuck with the infrastructure upgrade costs, without any associated benefits. The SEPA migration strategy must include the fruition of other additional initiatives: mobile payments, electronic invoicing etc.

Regarding corporates, both large and small, SEPA may be regarded as a starting point of a wider strategy of process dematerializing, not only payments. For example, they might opt for migrating from manual paper-based processing to automated processing, where the exchange of information within the organization or among business partners is made by electronic means. A transaction might be initiated and completed largely or entirely in an electronic environment, with as little human intervention as possible and on certain segments in the operations chain STP (*straight through processing*) might be achieved. Internal processes, IT platform, delivery channels must be analysed by corporates, like the banks and they must set out the best direction in order to benefit from the SEPA opportunities.

After adhering to the EU and up to the euro adoption, Romania must take

into account the objectives set out by the SEPA project and concentrate on closing the existing gap in the cashless payments area compared to the EU recorded average.

A comparative analysis between Romania's existing situation and that in the EU helps us formulate concrete proposals aimed at aligning the Romanian cashless payments industry to that in the EU. The analyses may be undertaken from various points of view. In this article I have chosen to analyze the situation only from the perspective of the structure of the payments instruments used by the payments services consumers in Romania mirrored to those in the EU.

Table no. 1 presents the evolution of various payments instruments between 2007 – 2009 in Romania and Member States. The information is taken from the latest statistical report of the ECB. It must be pointed out that starting on 2007 the ECB reporting methodology changed so that only the statistics of these last 3 years makes data comparisons possible.

After analyzing the figures, a first remark would be that the euro zone countries have a more balanced payments instruments structure. The variations in the weight of the main payments instruments used by consumers are small, credit transfers, direct debits and card being used in a balanced fashion. Their weight is around 30% of the total number of payments, +/- 3 %. In 2009, credit transfers took 27, 1% of the cashless payments in the euro zone, direct debits 30, 5% and cards 33%.

What needs to be pointed out is that the three payments instruments that each hold a third of the payments operations are also the instruments standardized by the pan-European SEPA project.

A similar balance is struck at the level of the entire EU, with a higher variation between the importance of the 3 main payments instruments: credit transfers cumulated in 2009 27, 6%, direct debits 26%, and cards 38, 4%.

**The relative importance of the payments instruments in the Member States - %
of the total number of transactions**

Table 1

Country	Credit Transfers			Direct Debits			Cards			Cheques			Other instruments		
	% of the total transactions			% of the total transactions			% of the total transactions			% of the total transactions			% of the total transactions		
	2007	2008	2009	2007	2008	2009	2007	2008	2009	2007	2008	2009	2007	2008	2009
Belgium	42.8	42.2	41.6	11.4	11.3	11.4	41.0	42.4	43.6	0.5	0.4	0.4	0.01	0.01	0.01
Bulgaria	82.0	81.2	80.9	1.2	0.6	0.3	16.8	18.2	18.8	0.0	0.0	0.0	0.0	0.0	0.0
Czech Republic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Denmark	20.6	20.1	19.6	13.7	13.5	12.1	63.1	65.4	67.6	1.2	1.0	0.7	0.0	0.0	0.0
Germany	36.8	35.2	34.7	48.9	50.0	50.3	13.5	14.1	14.5	0.5	0.4	0.3	0.0	0.0	0.0
Estonia	37.8	37.6	35.8	6.8	6.7	6.9	55.3	55.7	57.3	0.0	0.0	0.0	0.0	0.0	0.0
Ireland	24.0	23.8	25.6	15.2	14.7	17.1	41.2	45.0	43.6	19.6	16.6	13.7	0.0	0.0	0.0
Greece	21.4	21.8	21.4	11.1	9.5	7.9	48.2	50.5	53.2	18.3	17.2	16.0	0.7	0.54	0.46
Spain	14.3	14.5	14.6	43.4	42.9	43.7	38.0	39.0	38.8	3.0	2.5	2.0	1.37	1.15	0.85
France	16.9	17.0	17.0	18.8	19.0	19.9	39.8	41.2	42.2	23.6	21.9	20.1	0.74	0.69	0.64
Italy	29.1	27.9	30.4	13.5	14.5	14.6	35.4	36.6	37.2	11.3	10.1	8.5	9.35	9.06	7.09
Cyprus	16.8	0.0	27.0	15.3	0.0	8.5	33.7	0.0	37.1	34.1	0.0	27.4	0.0	0.0	0.0
Latvia	59.1	54.8	52.6	2.0	2.0	2.0	38.6	42.8	45.0	0.0	0.0	0.0	0.0	0.0	0.0
Lithuania	50.7	52.3	51.5	4.1	5.2	5.6	45.0	42.4	42.9	0.2	0.1	0.1	0.0	0.0	0.0
Luxembourg	49.5	48.6	12.0	10.7	10.9	2.8	37.6	38.7	10.0	0.2	0.2	0.0	0.0	0.0	0.0
Hungary	72.6	69.7	68.6	10.0	8.3	8.0	17.2	20.4	21.8	0.0	0.0	0.0	0.14	1.61	1.54
Malta	16.5	0.0	18.8	3.0	0.0	4.1	30.9	0.0	38.3	49.6	0.0	38.8	0.0	0.0	0.0
The Netherlands	31.7	31.1	29.9	26.4	25.8	25.4	38.0	39.4	41.2	0.0	0.0	0.0	0.0	0.0	0.0
Austria	47.9	44.9	42.9	35.0	37.1	38.0	15.3	16.1	17.3	0.2	0.1	0.1	0.27	0.38	0.47
Poland	68.4	65.7	64.4	1.2	1.2	1.1	30.4	33.1	34.5	0.0	0.0	0.0	0.0	0.0	0.0
Portugal	10.0	9.8	10.9	12.3	13.7	13.7	63.8	64.1	65.5	13.9	12.4	9.9	0.07	0.07	0.04
Romania	77.3	68.2	65.5	4.8	2.7	1.6	14.5	25.2	30.2	3.4	3.9	2.7	0.04	0.16	0.0
Slovenia	54.8	53.2	51.1	12.9	12.9	14.4	32.3	33.8	34.4	0.1	0.1	0.1	0.01	0.0	0.0
Slovakia	50.6	52.9	55.2	30.4	25.4	17.2	19.0	21.8	27.5	0.0	0.0	0.0	0.0	0.0	0.0
Finland	41.3	40.6	43.5	4.5	4.5	4.7	54.1	54.9	51.7	0.0	0.0	0.0	0.0	0.0	0.0
Sweden	34.4	32.3	31.9	8.8	8.3	8.5	56.8	59.3	59.6	0.0	0.0	0.0	0.0	0.0	0.0
United Kingdom	21.0	20.9	20.6	19.9	20.2	19.8	48.4	49.8	51.5	10.8	9.2	8.1	0.0	0.0	0.0
Euro zone	27.8	27.1	27.1	29.7	30.3	30.5	31.8	32.7	33.0	8.9	8.1	7.2	1.04	0.96	0.77
EU total	28.3	27.8	27.6	25.6	26.0	26.0	36.4	37.7	38.4	8.5	7.5	6.6	0.73	0.69	0.56

Source: European Central Bank

Romania has an entirely different situation: almost two thirds of the cashless payments transactions are made by credit transfer. Cards have had a highly dynamic development, their weight in the payments total has virtually doubled in the last three years, reaching in 2009 at almost 30%.

Direct debits present a significant difference both compared to the euro zone average and the EU average. Therefore, the attention of the main stakeholders, especially banks should be targeted towards promoting this payment instrument. In my opinion, this is the reason why, in Romania the attention should be focused on promoting the direct debit, the main topic of this article. If we are to thoroughly analyze the measures that need to be taken to promote cashless payments, we would notice that they are much more numerous, highly technical, depending largely on state of the art technology. In this article I shall focus on a single proposal for cashless payments development: promoting the direct debit.

The approach of this topic involves an interdisciplinary analysis, the success of the proposed measures depending on marketing actions, the technical solutions, the legal and regulatory framework, the quality of the project management process (as it is a nationwide project) etc.

Direct debit– the instruments with the highest development potential

Analyzing the figures in Table 2 we see that as regard direct debits Romania has the largest gap compared to the UE or the euro zone. The number of operation per capita is 200 times lower in Romania compared to the EU average and 255 times lower compared to the euro zone. As regards the other two payments instruments, although there are significant differences, the discrepancy is not as high as with direct debits.

Per capita operations, by payment instrument

Table 2

Per capita instruments	Total			Credit Transfers			Direct Debits			Cards			Cheques		
	2007	2008	2009	2007	2008	2009	2007	2008	2009	2007	2008	2009	2007	2008	2009
Romania	15.53	12.82	13.30	12.00	8.71	8.70	0.46	0.32	0.21	2.25	3.52	4.02	0.53	0.49	0.36
Euro zone total	163.07	170.04	175.94	45.70	46.44	47.63	49.90	51.62	53.65	52.46	55.63	58.13	14.66	13.82	12.58
EU total	150.13	156.85	163.97	42.84	43.74	45.17	39.32	40.78	42.67	55.08	59.18	62.98	12.80	11.00	10.88

Source: European Central Bank

Moving the analysis from an European level to a national level, if we are to look at the evolution of the credit transfers processed via the automated clearing house between 2006-2010 (Table 3) we notice that there are no spectacular movements: the number of operation oscillates between 48.5 million and 55.4 million operations per year, the monthly average varying between 3.8 and 4.9 million transactions, with a single peak of 5.5 million in October 2007. The direct debit traffic shows that at interbank level this instrument is insignificant; the largest part of this kind of transaction is made via intra-bank channels.

Number of operations by type of payment instrument processed by the automated clearing house SENT

Table 3

	2006	2007	2008	2009	2010
Credit Transfers	54,796,027	55,426,674	50,772,859	48,476,363	50,319,255
Direct Debits	135	5,548	22,945	65,337	93,082
Debit Instruments	n/a*	n/a*	809,967*	6,542,751	6,003,725

* Until October 2008, debit instruments were processed manually, not via the automated clearing house. Source: TransFonD

Taking into account the existing situation in Europe and bearing in mind the economic circumstances in the last few years that will significantly change the approaches of the business environment in Romania. The direct debit has the highest growth potential, both from the perspective of transferred amounts and the number of operations. The direct debit can be an advantageous alternative to cash operations made by the population and other entities, especially for payments that involve a certain regularity and repeatability. This category includes, for example, utilities payments –

electric energy, running water, central heating, telecommunications, cable TV etc. The direct debit is the ideal instrument for such transactions because all involved parties – suppliers, customers, central bank, Transfond – have something to gain.

Existing companies that operate already hold accounts opened with various banks and is unlikely that they will largely increase the number of credit transfers. For direct debit operations a lack of interest is to be expected from corporates as they wish to control closely their payments during the financial crisis; besides, it is possible to witness a coming back of the tax evasion among small companies.

In such context, the customers that need to be targeted are individuals, in close relation with utilities providers. If this product/service is appropriately promoted, a significant part of the population that is paying utilities invoices in cash, at the suppliers' desk, might be directed to use direct debit.

The proposal to reactivate **direct debit** is based on the fact that it truly brings advantages to all parties involved:

Commercial Banks:

- Additional income from the operations fees for operations that are now made in cash
- Lower costs for cash manipulation for the (many) banks that ensure collections at their own desks for various suppliers invoices
- Lower costs for banks for manipulating the cash amounts deposited by the big corporates (it includes not only the visible costs, but invisible costs, harder to take into account – security & protection, logistics, risk management, insurance, etc)
- A more efficient use of liquidities, not by cash keeping and manipulation, but by modifying the structures of the owned assets, e.g. by placing liquidities into more profitable assets.
- Widening the services range provided to their customers

Central Bank

- Decrease of the volume and amount of cash in circulation, decreasing the associated costs
- It fulfils one of the objectives set out by the regulations regarding the central bank (art.2. of Law 312/2004 „promotion and oversight of the payments systems operations”).

Suppliers:

- They can automate their collection operations, decreasing costs (especially staff) for this activities;
- It is a simple operation of collecting the counter value of the services provided and preset times, which helps companies to better manage their liquidities. It ensures a certain degree of certainty regarding the collection of invoices each day of the month;
- Lower costs with collected cash manipulation (lower banks fees, staff costs, risk management costs etc.)

-
- Improvements of the treasury activity as the collection rate for provided services will be higher and easier to predict for automated services, based on previously concluded contracts. Liquidities collected easily and on time can be better used (better placements or making their own payments on time avoiding penalties).
 - Reconciliations (regardless of their nature – invoices, collections, etc.) can be made much more easily, in an automated fashion.
 - Better and faster management of the customers, certain operations being made by banks and the interbank payments supplier, if the case may be;

Consumers (payers):

- They save time and money for paying their invoices. For customers living in overcrowded towns with heavy traffic such a service could prove extremely useful and be a real success.
- Operations are made according to the conditions previously agreed with the bank and the supplier; the consumer keeps the control over the transactions made on their own bank account;
- The reimbursement possibility for a certain transaction within certain deadlines, if an error was made or there is a problem with the invoicing services (the customer may ask for refund within 8 weeks for authorised transactions and 13 months for unauthorised transactions). It is essential for the customer to retain control over certain types of payments. Any claimed payment must be first refunded so that customer may benefit from their own liquidities (a payment that they otherwise would not have made if not for the direct debit agreement). The problem will be later solved between the customer and their supplier, without bank's involvement.

Processing infrastructure:

- Better benefit from the infrastructure it owns.

Putting things into perspective, it should be noted that with the help of the automated clearing house – SENT infrastructure, the direct debit might be promoted at cross-border level. One could imagine the utilities invoices payment for properties owned in Romania of the Romanian workers abroad. It should also be noted that the success of such an approach will largely depend on the openness of the Romanian banks in offering services for this type of customers. Either way, the direct debit on one hand is connected and adds value to the remittance service that might be provided by SENT and on the other hand, with other banking services (current account, currency exchange etc.) provided by banks.

What it is important in the case of this payments instrument is more the project implementation approach and the promotion and less the technical part of the service. Conjugated effort is needed from the banks, companies, Romanian Banking Association and the central bank, joined by TransFonD.

In order for this new product to succeed, the implementation efforts must concentrate on five main directions (that must be correlated and acted upon as part of a comprehensive program):

-
- Implementation of the service at the level of the clearing house infrastructure (including additional optional services)
 - Implementation of the service at the level of the commercial banks
 - Implementation of the service at the level of the corporates, especially large and very large companies
 - The creation of a legal and contractual framework able to ensure flexibility for the product and safety for the consumer, to provide for exception management, etc.
 - The promotion at national level of the product/service with the participation of all involved stakeholders.

The cost of the program is difficult to estimate on the five main areas because the reporting is different and the implementation activities differ among institutions; however, estimations can be made by components.

Thus, for the first component, changes to the clearing house, the project charges would go up as much as 330.000 euro, the implementation period being one year (requirements and specifications – four months, direct debit module development – three months, testing – three months, contractual framework – two months).

For the implementation of the direct debit service at the level of the commercial banks it is to be expected that the level of the individual expenses rise, on average, to almost half of the central implementation costs (i.e. the automated clearing house). The implementation period, as well, is partially added to the implementation of changes by the automated clearing house SENT (the activities are partially overlapping). Considering the experience in coordinating interbank level project to the 12 months needed to develop the central infrastructure 6 more months are added for the implementation by the commercial banks. As well, for the service to be successful and the investment be viable in economic terms for all project stakeholders it is important that the implementation involve the big utilities providers, the leasing companies, insurance companies that have repetitive collections and that are able to promote the service to their customers.

Creating the banking system contractual and legal framework, with the participation of the clients of this service is difficult to measure financially, as it involves conjugated efforts from several entities. The required period of time would be 6-9 months (with some overlappings). The most advisable would be that before the actual implementation of the direct debit service, the legal and regulatory framework should clear and agreed by all parties (banks, services suppliers, customers, etc). The premise I am starting from is that of self-regulation. In extremis, if the ratification process of the agreements between the parties takes too long or if the Romanian Banking Association considers it does not hold the necessary instruments to promote the agreements in a reasonable period of time, the central bank might intervene by a process regulating only the trailing aspects.

Promotion of the new direct debit service must be made in an orderly manner. The proposal would be that the promoters of this initiative should be the Romanian Banking Association, as the representative for the banks and TransFonD as the manager of the automated system that processes direct debits. The Romanian Banking Association can call meetings with the biggest corporate clients of the commercial

banks, those that can make up a critical mass for using the direct debit; the meeting would aim to debate the most important problems relating to direct debits. At these meetings it can be established (i) the roles and (ii) the degree of involvement for each stakeholder as well as (iii) the financial support for the promotion campaign incumbent on each institution.

The direct debit promotion is not the last or an insignificant stage of the program, but it actually ensures the success of this instrument on the market, ensuring the awareness among as many potential consumers as possible. Promotion is, at the same time, the most expensive activity of the entire direct debit implementation program; that is why I proposed that all involved stakeholders (banks, TransFonD, the big companies) should incur the costs of a common campaign at national level, individual costs would be thus smaller.

The proposal of a common promotion campaign for the direct debit is also motivated by the fact that the consumers should in a first stage be made aware of the advantages of this payment instrument, it needs to be educated, the competitive elements among the banks services following thereafter. Taking into account that at this moment the interbank direct debit is used in Romania very little, in order to impose this instrument on the market an approach based on cooperation would make much more sense than one based on competition.

Last, but not least, it must be stressed that for promoting direct debit in Romania the model of the British clearing house might be adopted to which all big companies are connected; the clearing house systems ensures payments processing for the banks and facilitating their retail payments, which have the highest volume. Adoption of the British model would also cater for certain savings by banks and corporates (that should no longer need to develop or adapt the internal application depending on their partners), would facilitate the adoption of some standards that in time would lead to other savings (by automation, STP). Given that there is a central point – the clearing house – all those interacting with it will have to use its standards. In time, as a result of the fact that regardless of the bank(s) they work with, corporates will use the same standard and will have a single access channel, they will optimise and automate their internal payments processes.

Direct debit implementation must be correlated with the implementation of the centralised direct debit mandates management system; the service is essential for ensuring not only ease of operation, but especially reduced operating costs, with a direct impact on the fees charged to the customers.

Conclusions

The potential for developing cashless payments in Romania is huge, the gap to Member States being very large, as shown before. By national policies closely correlated with those in the EU, Romania can gradually close the gap to the EU average.

The actions and solutions needed to reach this objective are varies. This article touched only one of the possibilities – the development and promotion of direct

debit, especially on the interbank level – that can determine the increase of cashless payments operations. The potential is significant, if we are to take into account the large number of utilities services (water, sewerage, landline telephony, mobile telephony, cable TV, satellite TV, electrical energy, etc.) or the large number of credit and/or leasing contracts that may very well use the collection/payment of invoices by direct debit.

The creation of the single euro payments area must be used as an opportunity; the measures for the standardisation, harmonisation of the payments instruments in the EU can essentially contribute to the promotion of the direct debit that is currently almost non-existing in Romania.

Selective bibliography

- *The Single Euro Payments Area: an introduction (2006)*, European Central Bank, Frankfurt am Main,
- Schmiedel, H., (2007) - *The economic impact of the Single Euro Payments Area*, Occasional Paper Series, No 71, European Central Bank, Frankfurt am Main,
- *A single currency – an integrated market infrastructure (2008)*, European Central Bank, Frankfurt am Main,
- Tumpel-Gugerell, G. (2008) - *Enhancing infrastructures for the EU financial market*, European Transaction Banking Conference, Frankfurt am Main,
- Bolt, W. and Schmiedel, H. (2009), *SEPA, efficiency, and payment card competition*, Working Paper Series, No 1140, European Central Bank, Frankfurt am Main,
- Schmidt, T., Stix, H. and von Kalckreuth, U. (2009), *Choosing and using payment instruments: evidence from German micro-data*, Working Paper Series, No 1144, European Central Bank, Frankfurt am Main
- “*The Single Euro Payments Area (SEPA): an integrated retail payments market*” (2009), European Central Bank, Frankfurt am Main,
- Nielsen Company (2010) “*General Perception and Attitudes towards Electronic Payments*”, Qualitative Research Report, Bucharest
- Palade, M. (2010), *SEPA – un proiect ambițios al comunității bancare*, – Forumul Național SEPA, ediția a doua, Institutul Bancar Român, noiembrie 2010;
- *7th SEPA Progress Report: Migration continues but requires realistic but ambitious regulatory end dates* (2010), European Central Bank, Frankfurt am Main,
- Koch, B. (2011) - *E-Invoicing/ E-Billing in Europe and abroad, From evolution to revolution*, Billentis, Switzerland