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SHORTCUT TO SEPA Credit Transfer (SCT)

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In January 2008, more than 4,300 banks in 32 countries representing more than 95 percent of euro payment volume in Europe took a historical step towards the realisation of the Single Euro Payments Area (SEPA)[1] by launching the **SEPA Credit Transfer Scheme** (SCT). The SEPA payment schemes are developed by the **European Payments Council** (EPC), the decision-making and coordination body of the European banking industry in relation to payments.

This publication summarises the main features of the SEPA Credit Transfer (SCT) Scheme including its key benefits. For a definitive source of information regarding the rules and obligations of the scheme, refer to the SCT Scheme Rulebook and the accompanying Implementation Guidelines approved by the EPC available for download on the EPC web site at www.europeanpaymentscouncil.eu / SEPA Credit Transfer.

The SEPA *Schemes* define sets of rules and standards for the execution of SEPA payment transactions that have to be observed by payment service providers (PSPs). The SEPA *Schemes* are set out in the SEPA Scheme Rulebooks approved by the EPC. These Rulebooks can be regarded as instruction manuals which ensure a common understanding between PSPs on how to move funds from account A to account B within SEPA. The rules and standards which make up a payment *scheme* are defined by PSPs in the collaborative space – that is the EPC.

The particular SEPA payment *products and services* offered to the customer are developed by individual PSPs or groups thereof operating in a competitive environment. The SEPA *Schemes* provide the flexibility and options which enable PSPs to add features and services of their choice to the actual payment *products*.

[1] Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Monaco, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland, United Kingdom.

General features of the SCT Scheme

The SCT Scheme enables payment service providers to offer a core and basic credit transfer service throughout SEPA whether for single or bulk payments. The scheme's standards facilitate payment initiation, processing and reconciliation based on straight-through-processing (STP). The scope is limited to payments in euro within the 32 SEPA countries. The payment service providers executing the credit transfer must formally participate in the SCT Scheme. There is in principle no cap on the amount of funds that can be transferred under the scheme[2].

Benefits

The SCT Scheme offers benefits to payers[3] and payees in terms of functionality, cost efficiency, ease of use and straight-through-processing.

- Payments are made for the full original amount – there are **no deductions**. A customer involved in a credit transfer payment can only be charged by his own payment service provider.
- **140 characters of remittance information are delivered without alteration or ommission** from the payer to the payee. These 140 characters can be unstructured (free text) or structured[4], as agreed between business partners.
- The **accounts of all financial institutions operating in SEPA can be reached** safely, quickly and easily regardless of their location; there will be no difference between credit transfers executed at a national level and those executed across borders.
- Due to the agreed timeframe for delivering an SCT, **certainty is provided about the availability of money** in the payee's account.
- **Identification of any account in SEPA using the International Bank Account Number (IBAN)** enables the storage of trusted information in a standardised format.
- **Rejects and returns can be automated**, because they are handled in a uniform and predictable manner.
- **Single payments and bulk payments are supported**, for example one debit to the payer's account with multiple credits to different payees.
- Specific data elements indicating the **initiation and receipt of "on behalf of" payments** allow payees to outsource their payment business to relevant service providers, subject to local regulation.
- **Easy identification of a payment** through specific data fields which clearly indicate payment types (salaries or taxes, for example).
- Payment service providers originating an SCT can request a **recall of duplicate or erroneous transactions**.
- **Automatic reconciliation of incoming payments** with outstanding invoices based on the ISO Creditor Reference Standard (ISO 11649) developed by the International Organisation for Standardisation resulting in more efficient cash management.

2 In line with the Payment Services Directive, funds to the amount of up to 999,999,999.99 euro (one billion euro minus one euro cent) can be transferred in a single SCT transaction.

3 The technical terms used in the SCT Scheme Rulebook refer to the payer as "originator" and to the payee as "beneficiary".

4 The EPC supports a proposal developed by the European Association of Corporate Treasurers (EACT), which allows companies to agree on a structure for remittance information (for more information visit http://www.corporatesepa.com/eact.html).

Specific features of the SCT Scheme

SEPA data format

With the launch of the SCT, EU banks[5] are the first in the world to deploy the global ISO 20022 message standards (SEPA data formats) for mass euro payment transactions. The use of ISO 20022 message standards is mandatory between banks.

In 2009, the EPC approved recommendations on the reporting of SEPA transactions by payment service providers to their customers allowing for fully automated straight-through-processing of SEPA transactions along the entire process chain (customer-to-bank; bank-to-bank; bank-to-customer). It is recommended that business customers use the SEPA data formats to initiate payments. Banks, however, may continue to accept other formats from customers for the initiation of SEPA payments.

IBAN and BIC

The IBAN and BIC (Business 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. Details on the use of IBAN and BIC are set out in the 'Regulation (EU) No 260/2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009'.

Execution Time

The payer's bank is obliged to credit the account of a payee's bank with the amount of the credit transfer within two banking business days following the point in time of receipt of the credit transfer instruction. The payee's bank is then required to credit the account of the payee in accordance with the provisions of the Payment Services Directive (PSD).

From 1 January 2012, the payer's bank is obliged to credit the account of the payee's bank with the amount of the credit transfer within one banking business day following the point in time of acceptance in accordance with the provisions of the PSD. PSPs may respond competitively to commercial customer needs by offering shorter execution times.

Originator Identification

An additional originator's (payer's) identification code may be included in the information accompanying the payment instruction. As a result, the payee can easily reconcile the incoming payment with the information given in the invoice or supporting document to which the payment corresponds. Moreover, in case of returns, the payer could automatically reconcile a returned payment with an invoice he needs to pay.

In the event of an SCT payment being returned to the payer, the payer's service provider supplies the necessary information allowing the payer to make the precise link between the original credit transfer and the return. A credit transfer might be returned to the payer in the event that the indicated account of the payee does not exist, for example, or if the payer erroneously initiates the same credit transfer twice.

[5] The term "bank" is used in a non-discriminatory fashion and does not exclude payment service providers other than banks.

European Union Regulation defines mandatory deadlines for migration to SEPA

In February 2012, the European legislator adopted the 'Regulation establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009' (the SEPA Regulation), which defines 1 February 2014 as the deadline in the euro area for compliance with the core provisions of this Regulation. Effectively, this means that as of this date, existing national euro credit transfer and direct debit schemes will be replaced by SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD). The majority of market participants recognise the value of setting a deadline for migration to harmonised SEPA payment schemes through European Union Regulation. The EPC shares the view that an end date for phasing out legacy euro payment schemes for credit transfers and direct debits ensures planning security for all market participants.

Stakeholders: get involved!

The SEPA Schemes evolve based on a transparent and inclusive change management process defined in the SEPA Scheme Management Internal Rules[6] which stipulate that literally anybody – all stakeholders – may formally introduce suggestions for changes to the SEPA Schemes. The EPC is required to evaluate the feasibility of such suggestions based on a fixed catalogue of objective criteria also set out in these internal rules. Any proposed changes to the SEPA Schemes are subject to a three-month public consultation.

Proposed changes to the SEPA Schemes that find broad acceptance in the entire user community are taken forward. As a result of this change management process, the SEPA Schemes now incorporate numerous features introduced by bank customers.

[6] The SEPA Scheme Management Internal Rules (EPC027-07) are available for download on the EPC web site at www.epc-cep.eu / About EPC / SEPA Scheme Management

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