Implication of Single Euro Payments Area for financial services market. The case of Romania

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Abstract
For our country, the development and the modernization of the national system of payments were and are a prevalent subject of the financial arena, after the socialist period since 1990. The purpose of this study is to examine the actual status and the future application of Single Euro Payments Area Frameworks, based on the Romanian experience. The study is structured on chapters that present the theoretical background of the theme, the strategy for the adoption and migration to SEPA payment instruments, the actual stage and the challenges of the SEPA implementation in Romania. Our aim is to underline the importance of adopting Single Euro Payments in our country and to present its overall impact on the national financial services market. Although Romania may be facing obstacles in terms of joining the Euro zone, it is already well integrated in terms of payment infrastructures and has already put in place SEPA instruments.

Key words: Single Euro Payments Area, direct debit, Payments Services Directive, corporate bodies, Romanian banking system

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1. Introduction

The European Union governments set ambitious goals for Europe in the Lisbon Agenda with the proclamation of creating the most prosperous and successful position for the EU in the global economy. In order to expand the European single market, the national-orientated payment systems needed to convert, and distinctive payment habits and cultures needed to merge towards more harmonized patterns. This is a demanding objective for 31 mature economies (27-EU countries, Iceland, Lichtenstein, Norway and Switzerland), many of them with proud histories of how patterns and cultures have evolved over centuries and decades. This is not an easy task to overcome and it needs the right balance of change process management in order to ensure that important value in existing services is not diminished in the new harmonized European services. Change must move towards something better in order to justify the burdens and possible pain points of the process.

In its premises, Single Euro Payments Area 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 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 corporate market, represented by the European Association of Corporate Treasurers, too has embraced the vision and acknowledged the potential benefits.

2008 was a challenging year for the project: it brought the first successful, visible deliverables of SEPA to the market with the introduction of the Credit Transfer and Card Framework. However, much remains to be done to achieve the full objects, and progress needs to continue.

Moving into 2009, there was a major change happening that wasn’t expected at the time the vision of SEPA was outlined. Even within the past few months, the banking industry has further consolidated and changed, we are now starting to see the true impact of the financial turmoil on the real economy throughout Europe, with no one remaining unaffected. 2009 was likely to create more interest for corporate users of payment services to change processes and systems (McCreevy, 2009, p.2). The most important driver for such change was the implementation of the Payments Services Directive on 1 November 2009, which includes measures that are beneficial for corporate bodies and oblige banks to offer updated services for any EU currency in each of the 31 EU Member States affected by the regulation.

In 2010, no country is isolated. Trade and business deals flow across all physical state borders, emphasizing the need for widely accessible and secure ways of effecting payments. The current crisis can also create a strong momentum to lift the market to the next level of modernization and dematerialization, but this time not merely with a single country dimension. Now it is time to take the European step.

The aim of this paper is to provide a global perspective of the Romanian payments market from the perspective of the implementation of SEPA schemes. We would describe the actual stage of the national banking market development and a plan for the SEPA adoption process. After presenting the general frame of reference of our theme in the specialty literature, the paper approaches the present stage of the SEPA standards at the national level.

The information on our research was realized by studying national and international specialty literature in this field and by consulting the available information from the institutions level which studies and researches on the banking card operations and on SEPA project, such as the European Commission, European Central Bank, European Payments Council, National Bank of Romania, Romanian Banking Association, TransFond (the operator of the national retail payment infrastructure)and National SEPA Committee from Romania.

2. Literature review

In the field of the theme we approached, the specialty literature holds theoretical analysis and empirical studies of the banking operations. Studies prefer a descriptive or much too technical approach of these operations or infrastructures while recently more studies present the challenges of the SEPA application across the European countries. Financial services in Europe have undergone dramatic changes in recent years. Much of this due to the development of information and communication technologies, the arrival of European Monetary Union and aging population. These will continue to be important drivers of change as the industry contributes to progress.

Many important contribution in the academic literature have addressed key issues surrounding card payment network in general and payment pricing and interchange fees in particular (e.g. Baxter, 1983; Rochet and Tirole, 2002; Schmalensee, 2002; Wright, 2004; Chakravorti and To, 2007). These studies differ in their various assumptions about consumers, merchants, technology and market structure. Although a number of important findings have emerged from this literature, they have not provided yet much guidance for the current policy debate regarding the creation and integration of future European retail payment markets.

An overview of the status of contemporary e-finance is offered by Shahrokhi, 2008, who discusses related issues and challenges. His paper provides data about e-finance growth in the last decade and introduces advances and innovations in e-finance and challenges regarding the financial services and IT industries.

Studies on application of SEPA are relatively limited and were elaborated over the last few years. In particular, the existing literature is silent about the potential effects of SEPA for payment cards and about the economic implications of competitive card schemes when seen in the light of the potentially large economic benefits that SEPA offers to banks, non-banks, corporate bodies, consumers and society as a whole(European Commission, 2008, Schmiedel, 2007). In particular, Hasan, Schmiedel, and Song, 2009, provide first supporting empirical evidence on the importance and significance of retail payment services for banks and banking industry.

Bolt and Humphrey, 2007, present the goal of SEPA, which facilitates the emergence of a competitive, intra-European market by making cross-border payments as easy as domestic transactions. With cross-border inter-operability for electronic payments, card transactions will increasingly replace cash and checks for all types of payments. Using different methods, they estimate card and other payment network scale economies for Europe.

Schaefer, 2008, develops answers to the question regarding the advantageous conditions for countries to form a single payments area. This question is analyzed in a model of spatial bank competition for a better understanding of the economic foundation of SEPA, an economic perspective research on the most informal policy debate about SEPA being developed. The analysis suggests that expectations about the positive effects on SEPA may be exaggerated as most channels for enhancing pubic welfare seem rather weak. Still, the project may be worthwhile undertaking if the cost of creating SEPA-compliant systems is reduced by extending the time frame for the implementation phase and if the use of electronic payments is promoted.

Using a spatial competition model of retail payment networks, Kemppainen, 2008, approaches economic consequences associated with formation of the SEPA. The model considers an expansion of positive network externalities on the demand side and adjustment cost on the supply side and reveals that the introduction of SEPA may not lead to a fully competitive and integrated retail payment markets. This is especially the case when the markets are nothing more than simple segments before the introduction of SEPA. In such a scenario, the post-integrated markets are likely to remain segmented or will be characterized by a kinked equilibrium where no significant price competition takes place. In both outcomes, SEPA leads to increased prices, larger network size (increased number of customers) and a higher consumer surplus. Additionally, if the SEPA-induced adjustment costs for payment networks are not prohibitively high, SEPA may also lead to an increase in both profits and social welfare.

The European Commission (2008) points out the potential benefits from SEPA in the European payments markets alone could exceed EUR 123 billion over the next six years. Further benefits are possible if SEPA can be used as a platform for electronic invoicing.

At the national level, the majority of the scientific references to the SEPA implementation belong to the some authors, who describe three major projects in respect to the European payment systems: Payment Services Directive (PSD), TARGET 2 and SEPA(Dedu and Bratu, 2008; Beju, 2008). They present the implications of these major projects for the market participants, for the operators and the National Bank of Romania.

At the level of the European Union, the importance given to the national banking payment systems is for now the biggest one. Arguments over this importance are offered by the European regulations in the field and a description of the legal frame specific to bank payments show the existence of main Regulations and Directives. From those regulations the Directive of Payment Services, adopted in 2007(Directive 2007/64/EC of the European Parliament and of the Council on Payment Services in the Internal Market(Official Journal of the European Union, 2007)) are detached, which provide the legal foundation for the creation of an EU-wide single market for payments. The Directive aims at establishing a modern and comprehensive set of rules applicable to all payment services in the European Union. The target is to make cross-border payments as easy, efficient and secure as national payments within a Member State. The Directive also seeks to improve competition by opening up payment markets o new entrants, thus fostering greater efficiency and cost-reduction. At the same time the Directive provides necessary legal platform for this initiative.

Table 1: SEPA and the PSD Impacts

	All euro payments	Domestic payments	PSD Directive
Euro-area 16	*	*	*
EU New Member States	*	^	*
EU States outside euro area	*	#	*
EEA(European Economic Area)	*	#	#
Switzerland, Monaco	*	#	#

Source: European Payments Council, 2010, p.2

Key:
* =Requirement to implement
^ =For new Member States domestic payments when join the euro
# =Voluntary alignment

In addition, Single Euro Payments Area (and the Payments Services Directive) will deliver benefits to consumers, merchants and corporate bodies, public administrations, large and small banks, issuers, acquirers, processors and payments suppliers.

3. SEPA impact analysis by main players

Chances and challenges for the banking industry–the principle objective of Single Euro Payments Area is to bring own the cost of payments to society. This will inevitably reduce bank profits. To cope with the new reality, and remain competitive in the payments business, banks must lower the cost of payments dramatically. To succeed, they must combine a number of cost reduction strategies. This includes reducing the number of systems used to process payments, reducing staff costs by eliminating manual processes and embracing higher levels of automation. On the other hand, the banking industry which was among the first to seize the fresh market opportunities, have the chance to acquire additional customers across Europe by offering attractive new SEPA products. The SEPA also gives banks acting as service providers for other banks scope for expanding this line of business. As the same time, already existing customers ties be cemented, thus strengthening customer loyalty. Banks from countries with low-cost payment services will have a particularly good chance of winning new business and breaking into other markets.

With SEPA, change brings many strategic opportunities for banks to innovate, to develop new products, to replace ageing systems and to improve operational efficiencies. Competition among banks is likely to increase. Larger banks can offer high volume payments processing products. Smaller banks can compete with larger ones, because one home account can serve customers in multiple countries (private clients, students, pensioners). Large and smaller banks can also specialize and develop and deliver products that will serve niche sectors. But with change come both opportunities and threats. While banks focus on SEPA and providing the necessary infrastructure, non-bank payment providers are moving to capture emerging sweet spots (European Card Review, 2008, p. 3). A number of telco operators, for example, are using new technologies to offer customers payment for music and movie downloads via mobile invoices. As customers become accustomed to the convenience of such payments, the mobile operator can charge a higher commission on each transaction. It is, after all, the price of convenience.

For business as a corporate, SEPA is a key accelerator in reducing the number of accounts they need to hold through the use of in-house banks and pan-European accounts, as well as ensure interoperability through open formats and connectivity. In particular, SEPA offers multinationals the opportunity to centralize payment and collection initiation by establishing shared service centers or payment factories, as well as reduce the number of bank relationships as consolidation of the banking industry creates truly pan-European banks.

The most obvious opportunity that SEPA provides to a corporate is the ability to centralize and rationalize the accounts payable process. SEPA brings along an instrument, the SEPA Credit Transfer-SCT, which can be used both for domestic and cross-border Euro transfers within most of Europe. This means that in sixteen Euro-countries the different national payments types and data formats can be substituted with one single payment type. There are, however, still some limitations concerning non-vendor payments, e.g. the SCT may not fully support tax or salary payments in all countries. There is also a counter-force to harmonization as some countries regard the standard SEPA payment as inferior to existing payment types. For example in Finland, reconciliation of receivables is already highly automated, something that standard SEPA payments not have been able to support.

Even for smaller, mainly nationally-oriented companies, SEPA is expected to provide benefits as competition in the banking sector increases, leading to a broader range of banks and banking services to choose from.

However, there are a variety of stumbling blocks and each corporate will have a different view on this depending on their organizational structure, location and business operations.

Nothing ventured, nothing gained. There is, however, a price to be paid for progress. The transition to SEPA necessitates considerable investment and administrative adjustments, and will cost a lot of money and effort.

Companies and organizations using less efficient methods of paying and collecting money may possibly end up paying higher charges than is now the case. Here lies an additional difficulty: the extra investments and costs are often more visible at individual level, whereas the benefits can be expected to be greater at macro level.

Small and medium-sized European merchants–Single Euro Payments Area has an important impact on small and medium European merchant’s approach to card acceptance and the services they receive from their banks. For example, some countries’ consumers have a cash payment culture. Thus merchants continue to accept and hold cash, run a greater risk of that or robbery and can incur higher bank fees for cash deposits and processing. In addition, low payments card usage by customers reduces the cost efficiency of the card terminals purchased or rented by merchants. With the introduction of SEPA many of the national practices that are specific to each domestic market will become more consistent. Card schemes moved to more standardized approaches. Card acceptance is extended every day, enabling domestic only payments brands to be supported by all terminals across the European Union. In addition, all SEPA approved cards must be chip based (the magnetic stripe is not SEPA-compliant) and are authenticated using PIN rather than signature, improving POS throughput and significantly reducing cardholder fraud.

Public administrations, as big initiators and receivers of payments, have a key role in a successful SEPA migration. As early adopters, they can contribute relevantly to the critical mass of SEPA payments. The European public sector is obviously a prime economic actor and is responsible for as much as 50% of the GDP in the euro area and it accounts for 20% or more of payments made in society (European Central Bank, 2008, p.4). Public administrations benefit immediately from using SEPA-compliant payment services. These benefits derive from using the payment services offered by banks based on SEPA schemes from 2008 onwards:

- enlarged geographic reach and more choice-the benefit of this is the ability to make and receive payments using the same infrastructure and channels as applying to purely domestic transactions;
- exploiting Internet technologies: the new SEPA payments instruments are based on XML(Extended Mark-up Language)standards, which power the Internet;
- a single standard saves money: public administrations will be using a single standardized format, a common account identifier based on BIC(Bank Identifier Code) and IBAN(International Bank Account Number), and one set of processing rules;
- predictable cash flow: over time, execution time are expected to reduce, thus speeding up cash flow;
- legally harmonized: all users of payment services will benefit from the harmonized legal environment contemplated in the Payments Services Directive and being developed by the European Union as an important parallel and supportive initiative along side the SEPA program; a likely example is electronic bill presentment and payment(e-invoicing), whereby invoices are no longer printed and mailed but presented electronically to the recipient who initiates the payment from an Internet banking portal.

4. The national strategy-overview of Single Euro Payments Area

The accelerated pace of economic growth in Romania in the last years has generated an increase in the volume of commercial transactions on the domestic market as well as in the international trade. Consequently, the volume of payments registered significant developments from one year to another. This phenomenon has slow down during 2009, in the context of the economic crisis.

It is worth mentioning that, to date, a high volume of cash payments between individuals has been recorded as a result of the low level of intermediation in Romania and slow development of alternative euro settlement instruments. According to the data provided by the credit institutions on 30 June 2009, the euro payments' average monthly volume, both sent and received, stood – across the banking system – at 225,000 instruments, down by almost 40,000 instruments over the same year-earlier period(Romanian Banking Association, 2009, p.5).

As usually the case for SEPA topics, the opinions were very diverse, ranging from "don't make any change" to "make the change now". Those advocating that no change is necessary for the domestic payment system asked why change something that works great since no compliance request for change has been formulated(advocating that SEPA is for euro payments only). Those seeking to make the current payments system a SEPA-like infrastructure answered: "Because Romania will adopt euro in 2014 and we'll need some time to get there with our payments infrastructure; and it will be great to have a single window system interface, for both euro and RON payments".

At the national level, the project for SEPA implementation is coordinated by the Romanian Banking Association, a body representing the national banking community within the European Payments Council. The governance structure includes the following boards: SEPA National Committee, SEPA Commission and SEPA project team.

The National Bank of Romania should act as a catalyst for the private sector activities in the fields of low-value payment systems and therefore support the implementation of SEPA in our country by participating as an observer in the activities of SEPA Commission and the National Committee. In March 2009, Romania adopted the SEPA National Implementation and Migration Plan (second version), which defines and draws up the national strategy for the implementation and migration to SEPA payment instruments for credit institutions, payment systems and users of payment services.

The credit institutions will apply the SEPA standards for national and cross-border euro payments before the adoption of euro. The new instruments will replace the current euro payment instruments and processes after a transition period during which the new transfer schemes will coexist with the ones currently used by the credit institutions. The transition period will include different processes, depending on the SEPA payment instrument to be implemented.

For credit transfer instruments, the migration started on 28 January 2008 and will end by 31 December 2010. According to the options concerning the adherence to the SCT expressed by the credit institutions operating in Romania on 30 June 2008:

- 19 credit institutions adhered to the SCT scheme starting with 28 January 2008, by submitting the adherence agreements to the EPC;
- 4 credit institutions have answered that they intend to adhere to the SCT, indicating the following deadlines for adherence:
  30.11.2008-1 credit institution
  31.12.2009-2 credit institutions
  31.12.2010-1 credit institution
- 5 credit institutions could not mention, at this phase, a clear-cut date for their adherence;
- 1 credit institution has not expressed its opinion as regards SEPA implementation;

- 3 credit institutions have adhered or are to adhere via parent banking institution.

Chart 1 illustrates the adherence to the SCT scheme in terms of number of credit institutions.

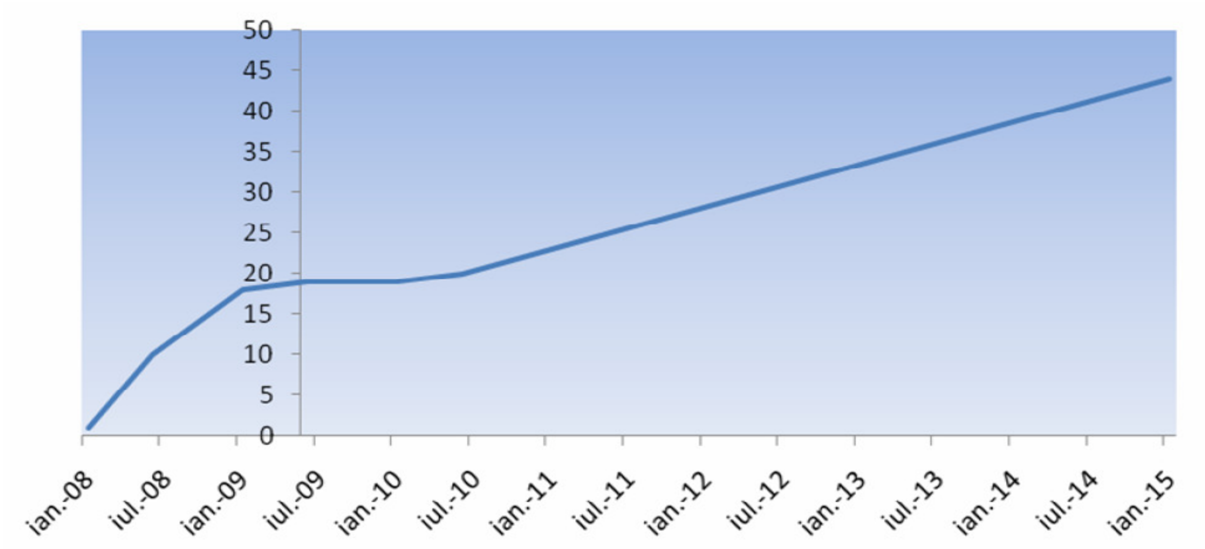

Chart 1: SCT Migration-Number of banks

Source: Romanian Banking Association, 2009, p.14

Currently, at the national level, there is no clearing settlement infrastructure for euro payments. The banking community has been analyzing, together with the operator of the national infrastructure for retail payments in national currency-TRANSFOND, the possibility for companies to offer, in the future, clearing and settlement services for SEPA-compliant euro payments. At a first stage, part of the credit institutions-which will not implement the new standards particularly as regards the adoption of the XML standards in their communication interfaces with the settlement applications, and which will not have the capacity to operate the electronic messages received in the SEPA format, will be able to choose to process euro collections via certain credit institutions that have already signed the adherence documents and have the capacity, as direct participants in the pan-European payment systems. Furthermore, these credit institutions will be able to convert the payments messages issued by their own systems into XML messages in the SEPA format, via the credit institutions which have made the required upgrades in their internal IT systems in order to insure compliance with the new standards.

By the end of October 2009, 10 Romanian banks and 5 branches of foreign banks (out of 33 banks and 10 EU banks branches operating in our country) adhered to the SCT scheme-over 90% of the total volume of euro payments.

Romania is aligning with the SDD, with the project in the midst of implementation, but banks find that direct debits are not generating volumes locally. There are only a few transactions, particularly when compared to western countries where utility and telecommunication companies have become reliant on direct debits. Large utility providers and international banks are putting pressure on the National Bank to change the direct debit framework in order to reduce cash transactions. There are up to 2,000 inter-bank direct debit transactions from a potential 15 million invoice issued monthly by the utility and telecoms providers. Banks are looking to promote direct debits because they are most cost effective and will encourage a broader take-up of electronic transfers, which, in turn, cuts down the use of cash. The transportation and processing of money is becoming more expensive because of labor, security and fuel costs, which are rising significantly in Romania.

According to the options expressed on 30 June 2009 by the credit institutions members of the Romanian Banking Association:

- 1 credit institution adhered to the SDD Core scheme starting with 1 November 2009;
- 5 credit institutions have expressed their intention to adhere to the SDD payment scheme, most of them taking into account a time horizon of 1-3 years(2010-2012);
- 26 credit institutions have stated their intention not to join the SDD schemes;
- 11 credit institutions have not expressed yet their options on the implementation of the SDD.

Considering that currently in Romania the direct debit is an infrequently used payment instrument and almost exclusively for payments in national currency, the banking community makes efforts to promote this instrument. The implementation of the SDD was preceded by the transposition into the national legislation of the Directive of Payment Services in the internal market (PSD), on 12 October 2009. By the 20^{th} of October 2009, only 1 bank signed the adherence contract to SDD Core scheme (Tuchila, 2009, p.4).

The results achieved ***in the Romanian field of business card development*** emphasize the fact that the number of issued cards have increased with as much as 2.86 million in the course of the last year. Today there are over 8700 ATMs, 162000 POS and EFTPOS terminals in Romania (National Bank of Romania, Statistics report-Cards and numbers of terminals Indicators, 2009). Almost 14 million transactions were performed via payment cards with the debit function in the third quarter on 2008 with a value of 2737,9 million RON and 4 millions transactions were performed via payment cards with the credit function in the third quarter of 2008 with a value of 704,91 million RON(Socol and Badea, 2009, p. 76). Romanian customers rather use debit cards than credit cards, both in terms of transactions' value and volume. Card payments have grown rapidly, but the use of cards is still far behind that of other countries.

The Romanian banking cards market is still subject to deep changes and competitive pressures on its way to maturity. However, all the remarks mentioned above show a considerable potential for growth.

The risk and the security are the important items in card transaction because costs for fraud are very high fore the banks. In Romania card frauds do not increase significantly, according to the information provided by National Bank of Romania. In 2007, credit institutions reported to the Central Credit Register database card frauds perpetrated by 52 debtors, compared to 43 in 2006, the fraud value reaching 19081 RON, as compared to 41863 RON a year earlier (National Bank of Romania, Annual Report 2007, 2008, p.46).

In Romania there is no national card scheme and only VISA and MasterCard payment schemes are currently in use. The local card market, (Pascu, 2008) although on an upward trend, is still way behind its peers in the European Union advanced countries-the average per one thousand inhabitants is below the European Union-wide average (567 against 1508 in EU) and the average of operations per inhabitant (3,34 against 50,02) is also lower than the average in the European Union(National Bank of Romania, 2008, p.46). The number of cards issued by the Romanian credit institutions exceeded 11.98 million at the end of Q2 2009, according to the data provided by the credit institutions and submitted to the European Payments Council. Although the number and value of commercial transactions have been increasing significantly from one year to another, cash withdrawal transactions hold the largest weight of card holders' transactions. A positive aspect is that, although 11% of the transaction value is commercial, these transactions represent 23% of the total. The majority of the payment cards are issued under the VISA or MasterCard schemes (currently these two schemes hold virtually equal market shares as regards the number of cards issued under their brands and the volumes of transactions effected). Over 85% of total number of cards on the national market have payment and cash withdrawal functions. Credit cards make up approximately 12% of total active cards.

For the moment there are only 8 Romanian banks which operate in 3D Secure Standard (Banca Comerciala Romana BCR, Banca Romana de Dezvoltare BRD, Raiffeisen BANK, Unicredit Tiriac Bank, Alpha Bank, Romexterra BANK, CEC Bank and Banca Transilvania), although we observed a global tendency of increasing the volume of on-line shopping of goods and services and consequently, an increasing concern regarding the potential fraudulent use of cards for the payment thereof.

Although VISA and MasterCard have not set an explicit deadline for the card migration to the EMV standards (they were initiated by Europay, MasterCard and VISA in order to provide interoperability for IC cards (Chip Card), and IC capable ATM&POS terminals, to authenticate card payments), the enforcement of the liability shift leads, implicitly, to the need of converting magnetic stripe cards chip cards (table 1).

Table 2: EMV Migration Status/Q2 2009

Number of cards concerned	11,983,498
Debit cards	10,582,006
Credit cards	1,401,492
Percentage of cards converted to EMV	4.63%
Debit cards	15.52%
Credit cards	7.91%
Number of POS concerned	91,002
Percentage of POS converted to EMV	70.46%
Number of ATM concerned	9,500
Percentage of ATMs converted to EMV	96,0%

Source: Romanian Banking Association, 2009, p.23

Whereas cards must have a chip and comply with the EMV standard in order to be SEPA compliant, an important objective is having also the EMV-equipped terminal networks (ATM and POS).

The actual Romanian banks stage of development reveals that in order to be SEPA-compliant with regard to cards transactions, banks:

- offered the new SCF-compliant schemes and cards from the 1st of January, 2008;
- have to ensure that after the end of 2010 all general purpose payment cards in circulation and issued in SEPA will be SCF-compliant;
- have to complete the implementation of EMV. Also, banks have to realize the compatible infrastructure for EMV-equipped terminal networks (ATM and POS). As concerns the ATM terminals, the Romanian credit institutions committed to finalize the conversion to the EMV standard in 2008, with only one exception whose deadline was set to December 2009.

Nevertheless, the acceptance by all merchants of payments by SCF-compliant cards cannot be guaranteed. In other words, the Romanian merchants cannot be forced in any circumstances (legally, technically, procedurally) to accept payments through a certain card scheme. Furthermore, all the hurdles whereby merchants could be prevented from opting for a certain acquiring bank from anywhere in the SEPA zone will be identified and eliminated.

As regards card issuance, out of 24 active credit institutions, only 3 were actually issuing international EMV cards at the end of Q2, 2008. Other 5 credit institutions started projects for EMV certification.

4. The actual stage and the challenges of SEPA implementation

Starting from the premise that the success of SEPA implementation relies on the pro-active involvement and participation of all parties involved in the project the nationwide communication strategy aims at informing credit institutions and other beneficiaries of the project about SEPA implementation while highlighting its benefits, in order to foster large scale adoption of the new instruments.

The communication strategy at the national level is implemented by the Romanian Banking Association, the NBR, the Ministry of Economy and Finance and TRANSFOND, by actions meant to inform all participants on the SEPA implementation and to communicate the SEPA objectives and some key messages tailored to each participant category.

Undoubtedly, SEPA means the cross-border efficient payment transactions and the decisive advantages lie in the fact that many different instruments, formats and rules for Romanian payments will be harmonized with the European ones. We remark the advantages of SEPA at the level of financial institutions (which will be to operate in a common pan-European environment) and advantages for the banking customers (which will be able to make their euro payments throughout the SEPA from a single bank account for credit transfers, direct debits, and card payments). For all its positive aspects, the project presents a disputable item regarding the omission of cheques and bills of exchange, which are discouraged as much as possible.

We studied the stages of SEPA adoption in Romania and found the following:

- there is a governance structure of SEPA project at national level, which contains the following boards: SEPA National Committee, SEPA Commission and SEPA Project team;
- SEPA National Committee is a decision-making body having responsibilities in drafting the strategy of SEPA and coordinating its implementation across the entire local community;
- Romania has established its national migration plan (in March 2009 Romania adopted the SEPA National Implementation and Migration Plan, second version);
- Consistent communication has taken place between the national banking authority (NBR), Romanian BANKING Association, other financial institutions (e.g. TRANFOND) and banking companies.

The Romanian Banking Association has begun setting-up SEPA National Forum, an advisory body comprising representative associations of all SEPA stakeholders-companies, small and medium-sized enterprises, large merchants, utility providers and consumers.

The actual Romanian banks stage of development reveals that in order to be SEPA-compliant with regard to cards transaction, banks:

- Offered the new SCF-compliant schemes and cards from the 1st of January, 2008;

- Have to ensure that after the end of 2010 all general purpose payment cards in circulation and issued in SEPA will be SCF-compliant;
- Have to complete the implementation of EMV. Also, banks have to realize that compatible infrastructures for EMV-equipped terminal networks (ATM and POS).

Undoubtedly, SEPA will mean the cross-border efficient payment transactions and the decisive advantages lie in the fact that many different instruments, formats and rules for Romanian payments will be harmonized with European payments. We remark the advantages of SEPA at the level of financial institutions (which will be able to operate in a common pan-European environment and advantages for banking customers (which will be able to make their euro payments throughout the SEPA from a single bank account for credit transfers, direct debits and card payments). For all its positive aspects, SEPA presents a disputable item regarding the omission of cheques and bills of exchange, which are discouraged as much as possible.

Examination of the SEPA implementation in Romania reveals numerous challenges and uncertainties related to the national interpretations of European legislation on payment services, particularly PSD. The connection between this European Directive and the future completion of SEPA is obvious. The PSD is a complicated directive and its adoption in Romania implied various national interpretations. The difficulty of PSD application results from its complexity and length and from the possibility of each country to choose certain options in PSD transposition. In order to adapt their conditions to the PSD and SEPA, banking companies will need to invest in their infrastructure. Romanian banks have to adopt the European policy regarding cards.

Our research reveals that Romanian banks are still focusing on compliance and reachability of SEPA SCF. We consider that it is important for banks to invest in new card SCF-compliant technologies in the near future. The main challenges and objectives for the Romanian card market in respect to adopting SEPA Cards Framework will be the establishment of a deadline for the migration to SEPA cards and compulsory requirements regarding the cards, which must have a chip and comply with the EMV standard in order to become SCF compliant. We believe that the national migration to SEPA Cards Framework compliant standards concerns the entire banking community, customers, mergers, the banks’ attitude and national regulators will be defining.

Unlike the Euro zone, where SCT was launched first, the studies made on the Romanian market surprisingly show that the adoption of the SDD scheme is the first priority of the Romanian banks as regards the adoption of the new standards. The Romanian banks (especially those currently providing inter-bank DD services) made cleat that the current debit scheme (for local currency) needs to be adjusted and the SDD scheme seems to be the preferred option; but the implementation of the SDD Rulebook for non-euro payments is not easy as non-euro payments are not in the SEPA scope and the new national regulations or inter-bank agreements will be needed. However, the implementation will be only partial, since reachability will be provided for the Romanian banks only (and limited to the national territory). Afterwards, the SCT full compliance will be easier to implement: only XML ISO 22002 and exception handling messages (the reject and return messages) are still needed to make SENT a SEPA-compliant CSM.

In conclusion, a possible approach would be to ensure SEPA compliance for the national infrastructure before the adoption of euro and, once euro adopted, to change the system currency, from RON to EUR. The Romanian banks and TRANSFOND already went through such an overnight change in 2005, when the denomination of the currency (from ROL 10000 to RON 1) has been applied

And the transition was smooth. The reachability issues remains to be solved before the euro adoption and several options are currently under scrutiny. The development of an actual SEPA euro-payment system by TRANSFOND is a different story. There is a problem of low volumes that might not justify a "go" decision for the near future, unless all payments (SEPA and non-SEPA) are jointly processed in the same system as to ensure the critical volume. A decision to this effect is expected from the Romanian banking community in the near future, based on individual banks choices or plans.

We have concluded that the feedback of the Romanian market is:

- corporations have little information about SEPA and PSD; however, in order to comply with the payments requests of several of their providers abroad, companies have asked the banks they are working with for certain payment services, but the required services were not part of banks' portfolio. After several discussions they realized that the product they need is one of the SEPA instruments, an European direct debit product;
- most banks are not very eager to adopt the new instruments and they rely on the generous timeframe of Romania' euro adoption (planned for 2014), which allegedly leaves them plenty of time for action.

In our opinion, both for banks and their corporate customers, this is a decision matter on the future competition landscape they choose to position themselves in.

5. Concluding remarks

For years before joining the Euro zone, the relative new and modern Romanian payments infrastructure for domestic payments is prepared to process all payment instruments in an electronic environment. As banks, one way or another, will be SEPA ready (the great majority already are) sooner or later, the only problem to be addressed is whether the existing payments infrastructure should be turned into a fully SEPA compliant CSM since this early stage, i.e. before the euro adoption, for both domestic and euro payments, even though the volume of the latter does not seem to justify such an undertaking.

The overall picture for Single Euro Payments Area is a positive one when we look at developments within the industry as a whole. The vendors are breaking down technical barriers and developing tools to aid transition. Public authorities are taking a more proactive role as frontrunners in the adoption of the new instruments, while corporate bodies are starting to look more closely at what SEPA really means for them. With this momentum and continued energy, the harmonized payments landscape that Europe wants will become a reality.

As regards Single Euro Payments Area, the following saying describes the situation appropriately: "A tree falling down makes much more noise than a growing forest. And we can fairly say that SEPA Forest is growing."(Giorgio Ferro, 2008).

It is our firm belief that SEPA is more than just a passing fad. It acts as an engine for creating a more integrated retail payments market in Romania, enabling competition and innovation, and making retail payments in general more efficient, safer and easier for users.

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