

# How secure is payment by SEPA direct debits?

The European countries' mutual approach to the free movement of European citizens and goods has found its continuation within the electronic payment traffic due to SEPA (Single Euro Payments Area). Its vision – to standardize cashless euro payments in Europe – was first realized with the launch of SEPA credit transfers in January 2008. Then, on November 2, 1 pm, another service was successfully started: SEPA direct debit. What role do security concerns play in the future acceptance of this payment instrument?

2,600 European financial institutions from 22 countries are already participating in this new scheme; among them, the Swiss financial institutions Credit Suisse, Neue Aargauer Bank, Clariden Leu, UBS and PostFinance.

The first one of the new direct debit schemes to be introduced was the SEPA Core Direct Debit Scheme, which is the base direct debit scheme (with general right of revocation), particularly for the "Business to Customer" area. According to the schedule, SEPA B2B Direct Debit Scheme (without general right of revocation) should be introduced in the business-to-business area starting in late 2010, as well as various additional services such as the e-mandate.

## What is a SEPA direct debit?

In a kind of credit transfer turnaround, the debtor authorizes the creditor to collect the amount due at his bank. The basis for each direct debit is a bilateral mandate between a debtor and a creditor to use the SEPA direct debit as a form of payment.

The debtor issues to a creditor – by means of a debit mandate, either nationally or abroad – the rights to execute SEPA collection in euro from the debtor's account. Neither the creditor's nor the debtor's financial institution are aware of this bilateral agreement before the first submission (by electronic mandate) of a direct debit.

Thus, the SEPA Direct Debit Scheme works the same way as the schemes existing in most European countries where the creditor has a physical copy of the mandate.

## How secure is the process?

Even though direct debits are basically an agreeable solution for invoicing and payment for both debtors and creditors, the Swiss direct debit procedures (LSV<sup>+</sup>/BDD) plays a relatively small role – with a share of less than 4% of all payment instruments – compared to other European

countries, such as Germany, with a share of more than 40%.

In parts of the Swiss population there are significant reservations about direct access by third parties to private bank accounts, reflecting a heightened security awareness. These reservations, and the need for heightened security, magnified by other unspecified insecurities, can affect the SEPA Direct Debit Scheme.

In a poll (see graph on page 9), most people interviewed wanted to maintain total control over their accounts and define the exact time a payment is executed, or they preferred already-existing payment paths via invoice, credit card charge, etc. For those individuals who basically were open to cross-border direct debit processing, the trust in the collecting country plays an important role: While there is a relatively high level of trust in the countries bordering on Switzerland, it decreases proportionally with increasing eastern distance. An additional factor is the size and reputation of a collecting party: Here, generally known brands are preferred over small businesses. The mandate's customer friendliness is also a deciding element: The lower the corresponding efforts for the debtor, the higher the readiness to sign the mandate.

The findings – and, in particular, the high security requirements – were included in the SEPA Direct Debit Scheme conception and development in an effort to reduce creditor reservations to a minimum, thereby reaching the highest possible level of acceptance in the market.

The SEPA Direct Debit Scheme design contains the following security measures in particular:

- Without a specific contract for SEPA direct debits, creditor accounts are not accessible at most of the Swiss financial institutions. This means that a SEPA direct debit can only be debited once the debtor has confirmed

participation in SEPA direct debit with their financial institution.

- This provision is intended to protect customers from unauthorized first debits. The debtor/customer has a general right of revocation for each payment, which can be exercised without justification up to eight weeks after the debit occurred.
- The debit will be reversed with appropriate value date by the debtor's bank.
- In the case of an unlawful debit (such as a debit after cancellation of a mandate) the right of revocation is granted for 13 months after the debit.
- Additionally, the customer has the option to prohibit debits by specific creditors in advance.
- National and international security and processing standard requirements are also implemented comprehensively within the SEPA Direct Debit Scheme.
- A single transaction can be traced through the entire sequence of participating parties at any time.
- Guaranteed repayment of a debit by the receiving institution in case of a revocation, even if the creditor has become insolvent (e.g., in case of bankruptcy). This responsibility of the receiving institution ensures that only creditors with positive ratings participate in the SEPA Direct Debit Scheme.

Nevertheless, debit volumes are expected to be low during the beginning phase because, for technical and business policy reasons, the switch from existing to new schemes requires time. In the midterm, the SEPA Direct Debit Scheme definitely has the potential to become an important payment traffic product in Europe. And over the long term, the SEPA direct debit has a real chance to replace the national schemes within the euro zone, whereas in Switzerland, as a classic import-export nation, these volumes could continually increase, too. <

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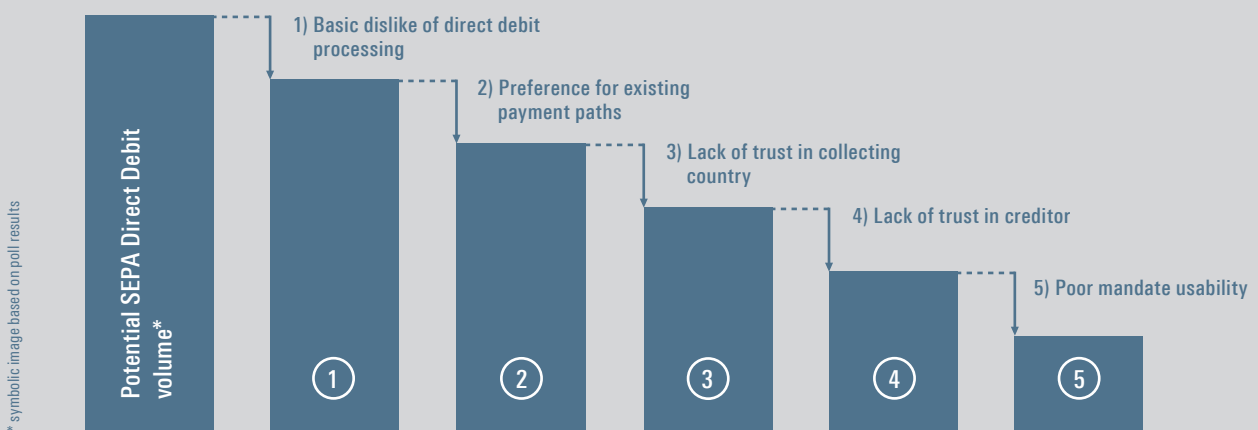
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**Summary**

Basically, the SEPA Direct Debit Scheme, and in particular the Swiss interbank solution (SEPA Direct Debit Service), meet all requirements for offering all participating parties secure, reliable and competitive cross-border direct debit processing.

Qualitative findings about the Swiss population's subjective perception referring to cross-border direct debit processing



Source: Credit Suisse