Order Code RL33952

CRS Report for Congress

The Single European Payments Area (SEPA): Implementation Delays and Implications for the United States

April 5, 2007

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Summary

The Single European Payments Area (SEPA) is a planned electronic payments system that upon completion in 2010 would allow individuals, small- and medium-sized businesses, and corporations to make electronic payments throughout the European Union as efficiently and safely as such payments are being made on the national level today. However, the implementation process has been plagued with delays. The most recent delay occurred on December 12, 2006, when a vote on the Payment Services Directive was scheduled to be taken. But unresolved regulatory policy issues among member states prevented it from happening. One reason for the delay is pressure from European bankers who are uncertain about their ability to profitably recoup their costs once the system is constructed. The legislative status of the directive is that the President of the European Council is re-drafting it and between July 12 and September 12, 2007, a vote should be taken in the Plenary Committee of the European Parliament.

Congress is interested in SEPA because it has been monitoring the European Union's effort to unify its 27 member countries' financial markets. Congress recognizes that upon implementation of these efforts, such as the EU Financial Services Action Plan (FSAP), the Financial Conglomerate Directive (FCD), and now the Payment Services Directive (PSD), American firms doing business with the European Union could be significantly impacted.

The European payments systems are extremely fragmented. There are 27 national systems governed by national and local laws and practices. On average, the cost of making payments in the EU remains relatively expensive, even though more less-expensive electronic payments are being made, replacing the more costly cash and paper-check payments. European payment services costs include the inefficiencies caused by the use of non-standard customer interface, incompatible formats between foreign and domestic banks, and a low degree of automation in banks' internal systems. By one measure, these inefficiencies and others are estimated to cost the EU between 2% to 3% of its gross domestic product (GDP) (the EU GDP was $13.4 trillion in 2005 which would mean between $268 and $402 billion).

This report presents a brief background on the efforts to create SEPA by the European government and the banking industry. It assesses the current electronic payments systems from the wholesale (large value) level and the retail (small value) level of payments. The report then examines the attempts to develop the pan-European automated clearinghouse system (PEACH). It summarizes the provisions of the Payment Services Directive that establishes the legal and regulatory basis for SEPA. The last two sections examine the implications of SEPA for U.S. international banks and conclude with an outline of the potential advantages and disadvantages of SEPA for European and American financial services providers.

This report will be updated as developments warrant.

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Introduction

The European Union (EU)[1] is developing an electronic payments system to allow national financial services providers to offer Eurozone-wide electronic payment services. SEPA is expected to allow individuals, small- and medium-sized enterprises (SMEs), and corporations to make electronic payments throughout the Eurozone as efficiently and as safely as such payments are being made domestically today. SEPA is to bring about similar economically unifying effects in electronic payments as the Euro (€) banknotes and coins brought about since their January 2002 introduction. Because of that introduction, businesses and individuals in the Eurozone are able to make cash payments within and across 13 countries using a single purse of currency. SEPA has been a work in progress since its conception in 2002. Numerous delays and lack of regulatory agreements have frustrated the European Commission in Brussel, its main advocate,[2] even though the private European banking industry is expected to pay for SEPA. The lack of progress could be explained by the European bankers' uncertainty about their ability to profitably recoup their costs once the system is constructed in 2010.[3]

SEPA is of interest to Congress because it continues to monitor the European Union's efforts to unify its financial services markets. Congress recognizes that, upon completion of SEPA, American firms, customers, and investors could be significantly impacted by such efforts as the financial services action plan (FSAP), the Financial Conglomerate Directive (PSD), and the Payments Services Directive. Congress is also committed to working with U.S. and EU financial regulators to

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[1] The European Union's member countries have expanded to 27. Only 12 members were in the Eurozone until recently. Slovenia joined the Eurozone January 1, 2007, increasing the zone's membership to 13. Countries in the Eurozone are Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, and Spain. Denmark, Sweden, and the United Kingdom have retained their national currencies. The extension included Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, and Slovenia for a total membership of 27.

[2] The European Commission is the executive body of the European Union. Its primary role is to propose and implement legislation similar to the executive branch of most national governments.

[3] For more details about this explanation, see the Federal Reserve System, Staff Study 175, *The future of Retail Electronic Payments Systems: Industry Interview and Analysis,* Dec. 2002, p. 18.

ensure U.S. financial services providers fair access to European and American financial markets.

A major recent development in the European efforts to unify its markets was that the European Parliament failed to take a scheduled December 12, 2006 vote on the Payment Services Directive that the European Commission published in 2005.[4] One reason for not having a vote is disagreement on legal and regulatory changes which are necessary to make SEPA operational. The PSD is aimed at removing most of the legal and regulatory barriers to market competition in the European Union, particularly the Eurozone and overcoming the regulatory obstacles to inter-Eurozone payments. The directive, for example, addresses fundamental questions raised regarding liability and burden of proof in cases of credit card fraud, execution time, and value date of transactions and treatment of nonmember countries' banks doing business in the Eurozone.

This report presents a brief background of the European Commission and the European banking industry efforts to create a single European payments area. It examines the current electronic payments system as it stands from both the wholesale (large value) and retail (small value) levels transactions. The next part of the report assesses the attempt to develop the pan-European automated clearinghouse system (PEACH). Then, it outlines the provisions of the Payment Services Directive that establish the legal and regulatory basis for SEPA. The final two sections of the report examine some of the implications of SEPA for U.S. international banks and outline some potential advantageous and disadvantageous effects of SEPA.

SEPA Background

To plan SEPA, the European Commission gave the preparatory work to the European Payments Council (EPC), which is a coalition founded by 65 banks and three European credit sector associations. The European Commission sees the creation of an integrated payments system as a logical follow-up to the introduction of the Euro and expects big savings and greater efficiencies for consumers and businesses from SEPA. However, SEPA is likely to impose some significant costs on the European banking industry in the process of its development, including increased spending on advanced technology in software and hardware infrastructure. As one European Central Bank publication states, "This restructuring [for SEPA] will, in the short term, generate considerable costs; however, in the medium to long term, the European banking industry will benefit from cost savings regarding euro area payments, and also from potential new revenue streams."[5] The European banking industry does not seem to be convinced about the future benefits. Consequently, it has been slow in developing SEPA. The slowness of the creation of SEPA has brought criticisms of the EPC and the banking industry, including a

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[4] For an updated version of this legislation, visit [http://www.europarl.europa.eu/omk/sipade3?PUBREF=-//EP//NONSGML+REPORT+A6-2006-0298+0+DOC+PDF+V0//EN&L=EN&LEVEL=2&NAV=S&LSTDOC=Y].

[5] European Central Bank, *The Single Euro Payments Area (SEPA):An Integrated Retail Payments Market*, Nov., 2006, p.8.

threat of possible regulatory intervention unless efforts to create SEPA are sped up.[6] The EPC response was that SEPA is on schedule in accordance with the revised December 2004 roadmap. The revisions clearly overlooked the benchmarks set in the earlier roadmap of 2002-2010.[7]

On the government side, concerns were expressed by the European Commission, and the European Central Bank because the EPC has missed critical points on its own roadmap. One argument the European Commission put forth is that EPC's efforts so far would not remove the fragmentation of the Eurozone payments system because the needed massive irreversible migration of users from the current dominant national systems to SEPA may not come about. Some in the European Central Bank argue that the banking industry should speed up the SEPA implementation process.[8] In defense of the EPC, Gerard Harsink, its chairman, responded that the council was responsible only for drawing up the rules and standards for the payment products and for implementing them.[9] The implementation is being held up by lack of approval of the PSD, which is aimed at integrating the existing national payment systems into a pan-European system.

The EU Payments System

If SEPA is developed, it would be one of the world's largest electronic payments system. In 2004, the then 25-member payments system made an estimated 231 billion transactions (cash and non-cash) with a total value of €52 trillion or $63 trillion.[10] But there was a relatively small volume of cross-border transactions (97% of the payments were within member states, with only 7 billion cross-border transactions).[11] Even so, seven billion is a significant number of transactions. The process of switching from paper checks, notes, and coins to electronic payments has already begun. Non-cash payment transactions in 2004 amounted to 65.3 billion

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[6] Tobias Buck, Brussels accuses banking industry of stalling on single euro payments area, *Financial Times*, Feb. 9, 2006, p. 1.

[7] For more details, see the European Payments Council's roadmap for the SEPA at [http://www.europeanpaymentscouncil.org/documents/Roadmap%20public%20version%204th%20April.pdf], 16 p.

[8] ECB Tells European Banks to Get Moving on Plans for Single European Payments Areas, *BNA Banking Report*, Mar. 6, 2006, p.1, [http://ippubs.bna.com/NWSSTND/IP/BNA/bar.nsf/SearchAllView/52EA66EFFDFDCD6A85257127000E92DD?Open&highlight=SEPA].

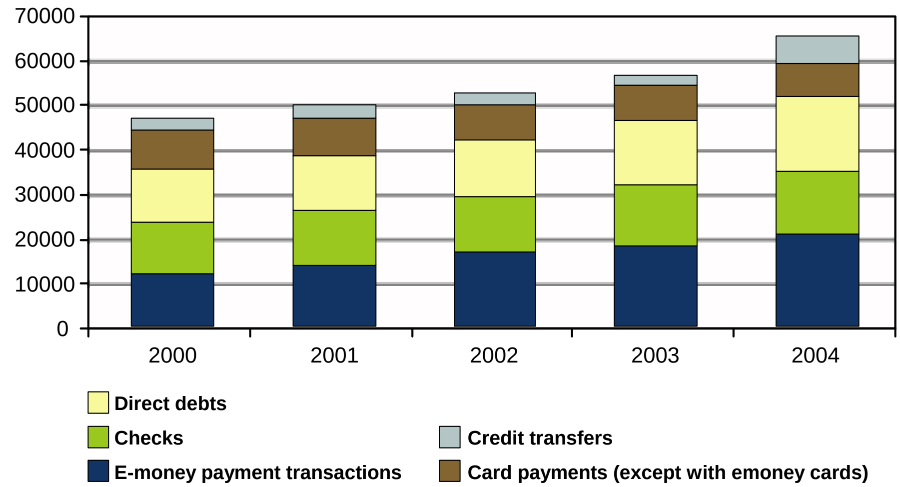
[9] Tobias Buck, *Brussels accuses banking industry of stalling on single euro payments area*, p. 2.

[10] While there are no official estimates of the number of cash transactions for the United States, non-cash transactions in 2004 were estimated to number around 100 billion. See Table 2 in CRS Report RS22525, *Electronic Banking: The Post-Check 21 Payments System*, by Walter W. Eubanks.

[11] HM Treasury, Payment Services in the EU, *Payment Services Directive: a consultative document*, July 2006, p 2.1.

transactions in the European Union.[12] The number of electronic payments (card payments, credit transfers, and direct debits) has been steadily climbing, replacing payments that were made with checks and cash. Total check payments declined from 8.9 billion in 2000 to 7.5 billion in 2004. **Figure 1** shows that the total number of electronic payments increased from 37.9 billion in 2000 to 57 billion in 2004. Using data from the Commission's retail banking study and the European Central Bank, there were an estimated 166 billion cash transactions in the EU in 2004.[13]

Figure 1. Number of Non-Cash Payments in the EU (millions)



Source: Commission Services Retail Banking Sector Inquiry, 2005-2006

The estimated aggregate cost of the existing payments system ranges from 2% to 3% of gross domestic product (GDP) (the EU GDP was €10.4 trillion or $13.4 trillion in 2005,[14] which makes the estimated cost between $268 and $402 billion). However, the cost of the payments systems of Belgium, the Netherlands and Sweden are between 0.3-0.5% of GDP. Switching to more electronic payments would lower these costs; the use of cash alone accounts for 60% to 70% of the total inefficiency

[12] See ECB 2006 Blue Book: Payment and Securities Settlement Systems in the European Union and in the Acceding Countries — Addendum Incorporating 2004 data. Available at [http://www.ecb.int/pub/pdf/other/bluebook2006addendem.pdf].

[13] See HM Treasury, Payment Services in the EU, *Payment Services Directive: a consultative document*, July 2006, p 2.1, and European Commission, *Report on the Retail Banking Sector Inquiry*, Jan. 31, 2007, p. 81, [http://ec.europa.eu/comm/competition/antitrust/others/sector_inquiries/financial_services/sec_2007_106.pdf].

[14] European Commission, *Europe in Figures — Eurostat yearbook 2006-2007*, Feb. 20, 2007, p. 153.

of the system.[15] A major reason for the high cost is that the European payments systems are made up of many separate systems. There are 27 national systems governed by national and local laws and practices. Stakeholders who have profited from the existing systems are not likely to readily change to SEPA. The prices for payment services take into account the inefficiencies caused by the use of non-standard customer interfaces, incompatible formats between foreign and domestic banks, and a low degree of automation in banks' internal systems.[16] The EU's main argument for SEPA is that it would lead to a less fragmented payments system that would benefit from economies of scale and reduced transaction costs.

The European banking industry's concern about SEPA is partly that it will have to restructure its currently profitable wholesale and retail payments system to accommodate SEPA. SEPA is expected to have the greatest impact on retail transactions (small value transactions). The wholesale (large value transactions) electronic payments system, which handles most of the cross-border transactions, is functioning well, but it too must be restructured. In support of the argument for SEPA, the EU Commission found huge price differences in providing payment services among member nations. The difference was as high as eight times. In addition, in some countries, the standard execution time for cross-border payments is one day, while in others it takes up to three days.[17]

The Wholesale Electronic Payments System

Most wholesale transactions are made through major banks with corresponding banking relationships with local banks in most important foreign cities. At least 80% of bank-to-bank cross-border payments are made through corresponding banking arrangements or via intra-bank transactions (the same banks with offices in other countries).[18] In addition, there are governments and private wholesale payments systems. Fedwire is Federal Reserve Wire Network for American bank transactions. The European Union has TARGET, which is the Trans-European Automated Real-time Gross Settlement Express Transfer, consisting of the European Central Bank (ECB) and 16 member countries' central banks systems. TARGET and TARGET 2 are also critical tools for the implementation of monetary policy for the EuroSystem through the European System of Central Banks. Another EU-wide wholesale electronic payment mechanism is the EURO1 system of the Euro banking association. EURO1 processes interbank payments. There are also three other smaller large-value systems located in France, Finland, and Spain.[19]

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[15] HM Treasury, Payment Services in the EU, Payment Services Directive: a consultative document, July 2006, p. 2.10.

[16] European Central Bank, *Improving Cross-Border Retail Payment Services: The Eurosystem's View*, Sept. 1999, p. 10.

[17] HM Treasury, Payment Services in the EU, Payment Services Directive: a consultative document, July 2006, p. 2.7.

[18] Yoon S. Park, *The Inefficiencies of Cross-Border Payment: How Current Forces are Shaping the Future*, Visa International Service Association, Jan. 17, 2007. p. 2.

[19] Bank for International Settlements, *Payment Systems in the euro Area*, the CPSS Red (continued...)

The Retail Electronic Payments System

On the retail side, the construction of SEPA began in February 2004, but soon ran into difficulties. In assessing the different EU-infrastructures in place for processing payments, the European banking industry opted for the creation of a pan-European Automated Clearing House (PEACH). ACH systems are large volume electronic payment processing systems. The system usually enables corporations and consumers to make routine payments more efficiently than cash or checks. Payrolls, recurring bill payments, and government payments to individuals and agencies such as Social Security benefits are examples of typical ACH payments. ACHs are broadcasters of payments to many payees or receivers of payments from many payees for a single ACH customer.

PEACH would be able to make these payments throughout the Europan Union, but would have required banks to either close their systems and move to another infrastructure, or transform proven and efficient national ACHs into PEACHs. In 2005, a number of existing automated clearinghouses declared their intention to become SEPA-compliant without necessarily transforming their systems into PEACHs. Indications are that the EuroSystem would accept this approach. It encourages both the migration of national to SEPA-compliant infrastructures and the establishment of additional PEACH providers to encourage the necessary competition in the market.[20] The banking industry's effort to minimize costs has been a contributing factor in the slowness of implementing the PEACH process.[21]

Furthermore, there is little confidence among financial analysts that these systems will work efficiently together. While the openness to a variety of SEPA-compliant infrastructures facilitates agreements among the EU-member countries, it undercuts capturing the cost savings from economies of scale. It is essential that a critical mass of payment instruments is processed in the PEACH infrasture, including local volumes, in order to be competitive with the lower unit costs of the large national ACHs. A major reason for the resistance to SEPA is that the bulk of the costs of processing intra-EU payments lies within the financial institutions (client order/reporting automation, back office automation). A critical mass of payments is needed to significantly reduce the unit cost of this processing.

Excess Profits in the Retail Electronic Payments Systems. The fragmentation in EU financial markets with 27 national regulators and local laws and practices could lead to excess profits for lack of competition. **Figure 2** shows the profitability of credit cards issuing at the country level, using 2004 data (specific

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[19] (...continued)
Book 2003, p. 75, [http://www.bis.org/cpss/paysys/ECBComp.pdf].

[20] European Central Bank, *Towards a Single EURO Payments Areas — Objectives and Deadlines*, Feb. 2006, pp.16-20.

[21] A network of automated clearing houses processes small-value electronic payments and retail electronic transfers. Electronic payments are frequently facilitated by a private electronic message transfer system. One of the largest and widely known electronic messaging systems is the Society for Worldwide Interbank Financial Telecommunications (SWIFT).

countries were not identified). While there is some controversy about the way costs were calculated in these estimates,[22] the data shows that the income generated from issuing credit cards was higher than the associated cost of issuing credit cards in all 25 member states. The weighted average profit ratio varied from 3% to 147% with an average of 65%, suggesting strongly that there are excess profits in the EU credit card market.

Figure 2. Profit Ratio Differentials in Credit Card Issuing, 2004

Source: Commission services retail banking sector inquiry, 2005-2006

Furthermore, the fragmentation and the lack of competition were evident in the variation in fees for ATM withdrawals and credit transfers (not shown) between banks and across member states. For example, some banks charge a fixed amount per transaction and others levy a percentage of the transaction amount. Others apply a mixed structure, combining methods of determining the charges. In the European Commission's study from which this data was obtained, the weighted average fee for a €100 ATM withdrawal on another bank with a debit card is €1.14. However, the fee charged ranged from pennies to €8. Greater variability was found for credit transfers. Credit transfers are payments that are made between bank accounts at the instruction of the payer. For the same €100 credit transfer, the weighted average fee in the 12 EU member states was €2. However, the weighted average fee ranged from €0 to €10. The study concludes that the characteristics of the retail banking industry

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[22] European Commission, *Report on the Retail banking Sector Inquiry*, Jan. 31, 2007, p. 169, [http://ec.europa.eu/comm/competition/antitrust/others/sector_inquiries/financial_services/sec_2007_106.pdf].

make it difficult to compare similar products. But, the pricing behavior of banks provides some initial indications on the degree of competition in the market.[23]

Provisions of the Payments Services Directive

In September 2005, the European Payments Council adopted the SEPA Direct Debit Rulebook for national consultation. What the member nations had to consider in this Rulebook was a complete set of business rules, practices, and standards which govern the direct debit scheme in SEPA. The Rulebook includes the roles and responsibilities of the participants, business and operational rules, and legal and contractual frameworks. A major unresolved issue for the EPC is the way debts are issued, amended, and cancelled. But this could be overcome by the passage of the Payment Services Directive. The Payment Services Directive could resolve issues such as whether the debtors can give the mandates to debit their accounts directly to the creditors, or whether the debtors should give the mandates to their banks, either directly or through the creditors.[24] Currently in some countries, debtors give the mandates to the creditors; in other countries, the debtors give the mandates to their banks.

The directive being considered for approval by the European Parliament contains the regulatory provisions of the Rulebook. These provisions affect the following institutions: credit institutions, e-money issuers, money transfer companies, automated teller machine (ATM) providers, companies offering bill payment services, mobile phone operators, digital payment service providers, credit unions, and central banks in supervising proportioning of risk in four-party payment schemes.[25] Upon implementation these legal requirements would allow these institutions to operate in SEPA.

The Payments Services Directive's structure consists of six titles:

- Title I sets out the subject matter, scope, and definitions. It excludes central banks and public authorities and specifies the financial institutions and services that are covered by the directive. It covers electronic payments in the EU and between EU and non-member countries

- Title II establishes the regulatory regime for payment institutions covered by the directive. It provides the general rules that apply to payment institutions. It also covers rules governing agents of payment institutions.

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[23] European Commission, *Report on the Retail banking Sector Inquiry,* Jan. 31, 2007, pp. 62-63.

[24] Ibid., p. 14.

[25] An example of the four parties is the cardholder, the cardholder's bank, the merchant, and the merchant's bank.

- Title III establishes the transparency of conditions for payment services. It provides the consumer protection provisions to be carried out mainly through disclosure requirements for transparency. It also covers disclosure requirements concerning currency exchanges.

- Title IV sets out the rights and obligations of participants using the payment system services. It covers the authorization of payments including what constitutes authorization and what happens when an unauthorized payment is being made and establishes the refunding mechanisms for different types of payments.

- Title V establishes the payments committee and provides the schedule of directive updates.

- Title VI contains the provisions specifying the transposition requirements that member states would have to make to harmonize the payments systems. Should the directive pass the European Parliament with agreed-to national amendments, it would then go on to the member states for implementation.[26]

The legislative status of the directive is that the President of the European Council is re-drafting the directive. The European Parliament's economic lead committee expects to get the President's re-draft on May 30, 2007. June 10, 2007 is the deadline for amendments in the Economy Committee. On July 11, 2007, a vote is to take place in the Economy Committee. Between July 12 and September 12, 2007, a vote should be taken in the Plenary Committee of the European Parliament.[27]

SEPA's Implications for the United States

The single European payments area could have some significant implications for U.S. international financial services providers. However, until the system is operational, the actual extent of SEPA's impact on the United States remains speculation. SEPA is not likely to significantly change the wholesale-side electronic payments, which rely heavily on corresponding banking relationships and government-operated payments systems. Where the impact of SEPA is likely to be felt is on the retail side of the payments business. Even if the system only partially reaches its optimal efficiency goals in retail payments, there is no assurance that these benefits will be fully shared with U.S. financial services providers. The main reason is that common legal and regulatory standards that are being negotiated naturally exclude the United States, which is mainly on the sidelines. It is possible that the outcome of these negotiations could make it more difficult for U.S. institutions to

[26] HM Treasury, *Payment Services Directive: a consultative Document*, July 2006, p. 3.11-3.17, [http://www.hm-treasury.gov.uk/media/39B/0A/payments_condoc040706.pdf].

[27] Shona Ferrier, *APACS and the Payment Services Directive*,APACS the UK Payments association. Available at [http://www.earthport.com/Downloads/EU_PaymentsDirectiveOverview.pdf]

compete in Europe. For example, under SEPA, U.S. financial services providers could be relatively disadvantaged by additional regulatory requirements or denied benefits made possible by SEPA. In short, U.S. institutions' customers may have to pay additional fees or meet specific requirements to make electronic payments within the Eurozone.

U.S. financial institutions could be placed under special regulations under SEPA, as the EU has done in the past. Such regulation could limit the type of services U.S. providers offer and the price they charge for those services. The EU 2002 Visa Decision is an example. Interchange fees are interbank fees paid between the card payer's bank and the payee's bank for the card issuance and the electronic clearing and settlement of the card's transactions. To lower the cost of credit cards for European merchants, the European Commission pressured Visa Europe to apply a fixed fee per transaction in determining its interchange fees. MasterCard, on the other hand, was allowed to base its interchange fee on a percentage of the transaction value. The Commission reported that the decision had the effect of reducing Visa cross-border interchange fees, while MasterCard enjoyed higher revenues from its cross-border interchange fees.

The European Commission complained to the European banking industry about interchange fees. It argued that these fees are higher than they should be in the EU. However, the Commission has not mandated how EU member states determine interchange fees as it did for MasterCard and Visa. The most recent Commission study shows that interchange fees remain excessive in many member countries that are using one or both methods to determine their fees.[28] Because U.S. financial institutions are outside these negotiations but are subject to their decisions, member states could gain an advantage on U.S. institutions by negotiating exemptions and/or amendments in favor of their countries' financial institutions.

A further possible concern is that the European Commission plans to build SEPA using Europeans enterprises exclusively. Because SEPA is European built, U.S. institutions' access to SEPA doesn't necessarily have to be a concern. However, the lack of U.S. presence in the rules' negotiations as well as the physical construction could later create problems in terms of software and hardware compatibility and protocol for U.S. institutions' access. Visa Europe, the card payment organization with vast experience in developing electronic payments exchanges for credit and debit cards as well as other methods of electronic payments, is expected to play a significant role in building SEPA.[29] However, to get this business Visa Europe had to separate from the Visa umbrella organization. Visa Europe is now a not-for-profit enterprise owned by 6,000 European member banks.

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[28] European Commission, *Report on the Retail banking Sector Inquiry,* Jan.31, 2007, pp. 114-116.

[29] Tobias Buck, "Visa to focus on developing Sepa Regime," *Financial Times,* Oct. 11, 2006, p. 1.

The newly incorporated Visa Europe has the opportunity to bid for new business as well as more flexibility to deal with the changing European payments system.[30]

The United States is excluded because the European banking association, whose members make up the majority of the European Payments Council that are responsible for planning SEPA, has made it clear that only European-owned and controlled organizations can bid for non-card processing work in constructing the pan-European Automated Clearing Houses (PEACHs) for debit and credit transactions.[31] According to the chief executive of Visa Europe, "building this single market, which we wholeheartedly support, is very unique and will require investment in infrastructures and — most importantly — very close co-operation between European banks. We believe the association's structure is the best way to facilitate this."[32]

Conclusion

On most fronts, SEPA's potential impact is largely uncertain. The objectives of the Payment Services Directive are critical hurdles for the European Union to overcome. Like most government-led initiatives SEPA is focused on the reduction of costs to end users — individuals, SMEs, and corporations. Initially, however, the SEPA effort translates into higher cost for European financial services providers that supply these electronic payment services domestically and across borders. The European banking industry is resisting SEPA because they are reluctant to invest in a more efficient payment system from which there is little or no assurance that they will be able to profitably recover the cost of their investments. Despite the heated debates in the European Parliament, it is very likely that the Payment Services Directive will be approved. However, like other directives, it is likely to be loaded with amendments, which could reduce SEPA's effectiveness in lowering end users' costs for payments transactions.

If U.S. financial services institutions are forced to adapt to regulatory modifications of each national system that is permitted under the Payment Services Directive negotiations, U.S. financial services providers could lose their competitive advantage. On the other hand, if the directive is effectively implemented, harmonizing member states' laws and regulations, and eliminating regulatory fragmentation, U.S. international institutions could benefit from dealing with one set of regulations instead of dealing with financial regulatory subtleties of 27 member states. U.S. providers in many areas of financial services are already technologically competitive in the European Union, which makes them capable of exploiting the new opportunities that SEPA might create more quickly than some of their European competitors.

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[30] Ibid.

[31] Jane Croft, "Visa to Spin off European division," *Financial Times*, Jun. 29, 2004, p.1.

[32] Peter Thai Larsen, "Visa to go public in radical shake-up," *Financial Times*, Oct., 11, 2006. p 1.