

Innovation Reports

EPAS

(ITEA ~ 05008)

Marking the cards for a Single Euro Payments Area

NUADU

(ITEA ~ 05003)

Tele-healthcare can offer higher quality living

SMARTTOUCH

(ITEA ~ 05024)

Integrating services on the run

EPAS

(ITEA ~ 05008)

Otilia Rouquet, Ingenico, and William Vanobberghen, Groupement des Cartes Bancaires, France

Marking the cards for a Single Euro Payments Area

The EPAS project set out to overcome obstacles to the interoperability of electronic payments schemes in a single European market. EPAS aimed to contribute to the achievement of a Single Euro Payments Area by delivering three major card-based protocols built on open and interoperable standards. An additional objective was to extend this valuable experience to the worldwide sphere of card payments through an ISO 20022 universal standardisation process.

The European banking industry, the European Central Bank (ECB) and the European Commission are working together to ensure the successful creation of the Single Euro Payments Area (SEPA). SEPA will make it possible to make and receive payments in euro between and within countries under the same conditions anywhere in the area. This will ensure that consumers, businesses and public administrations will be able to make cashless payments from their domestic accounts to anywhere within SEPA.

An integrated market for payment services entails the removal of all technical, legal and commercial barriers between current fragmented national payment markets. By developing and using open and common standards, enhancing competition and improving payment services, SEPA will foster an efficient and competitive payments industry in Europe as part of the European Single Market. And a crucial element is

the harmonisation of the billions of electronic retail payments made with both debit and credit cards.

Such harmonisation will require issuers, acquirers, card schemes and operators to adapt to new principles known as the SEPA card framework (SCF). Key features are that cardholders can pay with one card all over the euro area, and retailers will be able to accept all SEPA cards in a single terminal. As a result, payment-card processors will be able to compete with each other and to offer their services throughout the euro area. This will make the market for processing card payments more competitive, reliable and cost efficient.

PAYMENT SERVICES DIRECTIVE

The Payment Services Directive (PSD), issued in 2007, provides the legal foundation for the creation of SEPA and aimed at establishing a modern and

comprehensive set of rules applicable to all payment services in the EU. Both the European Commission and the ECB believe strongly that SEPA will lead to economies of scale.

The harmonised development of electronic card payments in Europe will offer substantial savings in cash-management operations for retailers – particularly multinational companies that now have to maintain separate card-handling systems per country. The new system will lead to real competition between card handlers as European-wide operations become possible.

Small retailers will benefit as they will only need one type of terminal to handle all types of card operation. And consumers will profit from more efficient card payments at a lower cost – ensuring fast and secure transfers between bank accounts anywhere in the euro



area, and making it possible to use bank debit cards to make payments abroad in euro, just like at home.

To avoid unnecessary legislation, banks, retailers, vendors, services providers, card schemes and users teamed up in the EPAS project to deliver the necessary standards to meet the need for global payment standards by 2010. This will sustain the creation of a single market for card payments in Europe and ensure the emergence of new innovative and competitive payment solutions.

CREATING NECESSARY CONDITIONS

From its inception, EPAS created the necessary conditions to reach SEPA's objectives of achieving the same user experience throughout Europe by:

- Involving the key stakeholders in card-payment, manufacturing and software-development services – including several major multinationals;
- Clearly identifying the business requirements involved; and
- Ensuring a universal solution that could – through ISO standardisation – become the worldwide standard for interoperable payments by cards.

Overall, EPAS has delivered a series of specifications that will enable a smooth migration from today's non-interoperable and proprietary solutions with dedicated interfaces to an open environment based on interoperable hardware and software components from different manufacturers.

The work involved developing three major elements involved in point-of-interaction (POI) transactions:

1. A **terminal management system** (TMS) involving data transfer, including encryption, and maintenance; this ensures easier payment systems administration and suitable security;
2. A **retailer protocol** covering administrative, payment-services and device-services exchanges; it ensures a clear separation between sales and payment functions, removes dependencies between payment services and products, and offers a common protocol for all types of architectures and environments.
3. An **acceptor-acquirer protocol** covering authorisation, completion, rejection, reconciliation, diagnostic and specific service exchanges; this offers a single common solution for multiple acquirers, removes local and regional constraints and embeds security.

A first working demonstration of the EPAS standard took place at the CARTES and iIdentification show in Paris in November 2008. Partners Ingenico and Hypercom demonstrated how their payment terminal solutions could be interconnected with acquirer protocol systems supplied by Atos Worldline, an issuer simulator from Experian, a TMS protocol from SRC and retailer protocol systems from Scheidt & Bachmann and Wincor-Nixdorf. GALITT and Integri provided software simulators for this demonstration environment.

PAVING THE WAY AHEAD

EPAS has paved the way to standardised universal specifications free of royalty and/or charges. This initiative, based on the collective work of key stakeholders in the card-payment industry in Europe, will enable them to benefit from a single, common solution available on various platforms provided by global key-terminal manufacturers and solutions providers.

A dedicated legal structure will be set up to ensure the further evolution and maintenance of the specifications and standards. This will ensure the protection of the intellectual property rights (IPRs) gained in the ITEA project and make possible the delivery of references to interested implementers.

The further standardisation process will continue in ISO 20022, where specifications will be delivered and validated during 2009. Availability of an EPAS ISO 20022 standard will enable wider acceptance worldwide and proper convergence with payment standards already developed for credit transfers and direct debits. This will allow banks and users to reduce the gap progressively between card and non-card payment processes.

Wide availability of EPAS specifications will meet industry requirements to base all further developments on a common solution. Consequently, it will reduce the risk of legal action by European regulators to impose an alternative solution in the absence of such an initiative. •