

SEPA direct debit

The SEPA¹ direct debit is a 'local' payment instrument for the entire EU and EEA plus Switzerland and Monaco. It represents a significant development from the current diversity of national systems and a major step forward for cross-border collection procedures, since there has been no standardised product for direct debits within Europe.

Similar to SEPA credit transfers, existing direct debit schemes will gradually be replaced by this common, Europe-wide direct debit system.

The introduction of the SEPA direct debit is founded on the new EU Payment Services Directive, which paves the way for the discontinuation of the various different legal positions with respect to the different time limits for claims in order to enable the settlement of direct debit instructions across national frontiers. This directive was adopted in April 2007 and must be implemented in national legislation by 1 November 2009.

SEPA direct debits can be used for direct debits both within and across the participating European countries.

As with SEPA credit transfers, the IBAN and BIC (SWIFT code) are mandatory when using SEPA direct debits, and they can likewise only be made out in euros. However, a new feature is the agreement of a specific due date to be stated by the payee, which also represents the date on which the payer will be debited.

Unless otherwise agreed, the payee must send advance notification to the payer at least 14 days before the due date of the direct debit. After that the payee may initiate the direct debit at their bank as the first collection point. In this case the payee has to consider transaction time depending on the specific direct debit process.

Under the European Payment Council (EPC²)'s rules users are entitled to block their accounts for SEPA direct debits, in which case SEPA direct debits may not be debited to that account.

¹ Single Euro Payments Area

² The EPC (European Payment Council) was created to act as a standardisation body for the European credit industry. EPC working groups were responsible for drawing up the rulebooks for SEPA direct debits and SEPA credit transfers.

Differences between the two SEPA direct debit procedures

The standard SEPA Core direct debit, for use in retail business transactions with private persons/consumers, is precisely geared to this group of individuals. When submitting SEPA direct debits for collection, payees must allow sufficient time to ensure that they arrive at the payer's bank on time. In the case of the first in a series of recurrent payments and one-off payments, that means at least five Target days before the due date, as against at least two Target days in the case of recurrent direct debits. Core direct debits also provide by law for long return periods up to 13 months.

An important requirement for corporate users was the creation of a direct debit instrument geared to their specific needs. To this end an optional corporate users B2B direct debit scheme was devised. This resembles the German direct debiting procedure whereby the payer's bank carries out mandate verification on presentation of the direct debit. This means that, unlike the core procedure, the payer must present the mandate to their bank and instruct the bank to execute it. Accordingly, B2B direct debits cannot be returned by the payer, with the exception of direct debiting without a mandate. Shorter transaction periods also apply: the direct debit instruction must be presented to the drawee bank within one Target day of the due date, and banks must return direct debits which cannot be honoured within two Target days.

Here is an outline of the differences between the SEPA direct debit and the German direct debit scheme:

SEPA Core direct debit	German direct debit scheme (Einzugsermächtigung)
Used within SEPA	Only used domestically
Given mandate information	Reference only to the direct debit authorisation
Due on specified date	Due on sight
Contestation period for refunds eight weeks from date of debiting	Contestation period six weeks from debiting in accordance with German direct debit interbank agreement
Used creditor ID of the payee	Payee does not use creditor ID
Payment details: 4 line @ 35 characters per line	Payment details: 14 lines @ 27 characters per line
Used BIC and IBAN	Uses account number and BLZ
Can be contested up to 13 month after debiting if no mandate has been presented	
Possible to specify ultimate debtor and ultimate creditor	

Direct debit mandate

The SEPA direct debit is a collection procedure based on a direct debit mandate presented in writing by the payer to the payee. Through this direct debit mandate the payer authorises the payee to collect money via direct debit and instructs their bank to honour the direct debits presented by the payee. The payee presents the direct debit to their bank for collection. The direct debit data also include the electronic mandate data. In accordance with the statutory duty to keep business records, the payee is obliged to keep the signed mandate on record and present it on request.

Each direct debit mandate includes a unique mandate number which must always be disclosed, thus enabling the presenter of the direct debit to be identified. The mandate can be cancelled by the payer at any time. In general a SEPA direct debit mandate has no time limit and applies until it is cancelled by the payer. However, if no further direct debits are made by the payee within 36 months of the last collection of a SEPA direct debit, the mandate expires. Existing direct debit arrangements cannot be used for SEPA direct debits.

Creditor identification number

The new SEPA direct debit scheme provides within the SEPA direct debit mandate a binding feature for the account-independent and explicit identification of the direct debit creditor (creditor identification number). This number must be stated in the SEPA data set when collecting a SEPA direct debit.

The mandate reference number given by the direct debit creditor as well as the identification number passed on by the credit services sector will be forwarded along the entire payment chain right through to the payer. In combination of the creditor identification number, the mandate reference number ensures the explicit identification of a mandate, allowing the debtor on presentation of a SEPA direct debit to verify the actual existence of the mandate, or alternatively giving the paying institution the opportunity to offer the verification as an optional service.

In Germany the Deutsche Bundesbank is responsible for issuing creditor identification numbers: <http://www.bundesbank.de>.

Presentation and charging of direct debits

On receipt of a direct debit, the payer's bank informs its customers in writing of the impending collection. In case the client does not object and provided there are no other reasons the bank will collect the amount on due date.

Returning direct debits

The payer is entitled to contest a direct debit within eight weeks of the collection, unless the payment was unauthorised as no mandate existed, in which case the return period is 13 months from the debit date. B2B direct debits may only be returned if they were collected without a valid mandate. A direct debit return initiated by the payer's bank must take place no more than five (core) or two (B2B) bank business days after the due date.

Returns procedure

Before the due date:

Refusal – pacs.002.001.02 (initiated by the payer)

- Refusal of a direct debit by the payer after receiving the advance notification

Reject – pacs.002.001.02 (initiated by the payer's bank)

- Direct debits departing from the normal process due to
 - account closure, lack of funds or death of account holder
 - prior contestation by the payer

Revocation – pacs.006.001.01 (initiated by the payee)

- Payee realises that the direct debit was executed by mistake

Request for cancellation – pacs.006.001.01 (initiated by the payee's bank)

- Cancellation by the creditor bank, for instance due to erroneous presentation

After the due date:

Refund – pacs.004.001.01 (initiated by the payer)

- Contestation by the payer after booking

Return – pacs.004.001.01 (initiated by the payer's bank)

- account closure, lack of funds or death of account holder

Reversal – pacs.007.001.01 (initiated by the payee)

- Payee realises that the direct debit was executed by mistake

The following countries are part of the SEPA scheme as of September 2009:

Belgium, Bulgaria, Denmark, Germany, Estonia, Finland, France, Greece, Great Britain, Ireland, Iceland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Monaco, the Netherlands, Norway, Austria, Poland, Portugal, Romania, Sweden, Switzerland, Slovakia, Slovenia, Spain, the Czech Republic, Hungary and Cyprus.

GLOSSARY

BIC

A BIC (bank identifier code) is an eight- or eleven-digit ISO code issued by SWIFT in order to explicitly identify a given bank during financial transactions (ISO 9362).

Consumer

A payee or payer who is not a bank or a business.

Creditor identification number

A unique, standardised Europe-wide number which explicitly identifies the payee and allows them to collect a SEPA direct debit independently of any specific account.

Due date

A target date on which the payer's account is to be debited by the bank.

EPC

The European Payments Council (EPC), a body representing banks and banking associations throughout Europe. It is the owner of the SEPA scheme and lays down the rules governing SEPA direct debits and other procedures.

IBAN

IBAN stands for 'international bank account number'. It is the standardised international representation of an account number.

Mandate reference

This reference identifies each mandate signed by a payer for a payee. This number must be specific to each mandate together with the payee's creditor identification number.

Notification of collection

Prior to the transfer of the amount to be collected to the payee's bank, the payee notifies the payer of the amount concerned and the desired due date. The notification may be presented either together with or as part of a set of documents (e.g. an invoice) or separately.

pacs

Stands for 'payments clearing and settlement'. It describes XML messages used in interbank communications in accordance with the definitions laid down in the ISO 20022 standard.

pacs.002.001.02

Stands for an XML message sent from the payer's bank to the payee's bank, for instance in order to refuse a direct debit due to contestation by the payer or account closure prior to the due date.

pacs.003.001.01

Stands for an XML message sent from the payee's bank to the payer's bank. The message is used to collect money from the payer's account on behalf of the payee.

pacs.004.001.01

Stands for an XML message sent from the payer's bank to the payee's bank in order to reverse a payment previously made.

pacs.006.001.01

Stands for an XML message sent from the payee's bank to the payer's bank to reverse a direct debit before the due date.

pacs.007.001.01

Stands for an XML message sent from the payee's bank to the payer's bank to reverse a payment that has already been made.

pain

Stands for 'payment initiation', describing an XML message used in client-bank communications in accordance with the definitions laid down in the ISO 20022 standard.

pain.008.001.01

Stands for an XML message sent by the orderer to their bank in order to request individual or combined collections from the account or accounts of one or more payers on behalf of a payee.

Payee

An individual person or company collecting a direct debit.

Payee's bank

A bank at which the payee holds the relevant account.

Payee reference

Uniquely identifying information given by the payee in relation to a direct debit.

Payer

An individual person or company from whose account the direct debit is collected.

Payer's bank

A bank at which the payer holds the relevant account.

“R”-Transactions

Rejections and refusals of direct debits are known as “R”-Transactions.

Refunds

Refunds are claims by the payer for the return of a direct debit. A refund request must be sent to the payer's bank within eight weeks of booking, demanding the return of the amount concerned from the payee's bank via an “R”-Transaction.

Refusal

Refusals are instructions not to honour a direct debit made by the payer to their bank prior to settlement. Refusal leads to the payer's bank rejecting the corresponding collection request.

Reject

The payer's bank may reject a collection instruction prior to settlement for technical reasons or if it is not able for other reasons to honour the collection instruction (R transaction).

Request for cancellation

A request by the payee's bank for the cancellation of a direct debit collection prior to settlement.

Return

A return is initiated by the payer's bank if the collection fails after settlement to conform to the normal transaction process, for instance due to account closure, lack of funds, no SEPA account or death of the account holder.

Reversal

A reversal may be initiated by the payee within two banking days of settlement of a direct debit.

Revocation

The payee is entitled to revoke a direct debit collection prior to acceptance of the payment order by the payee's bank.

SEPA

Single Euro Payments Area. SEPA comprises all EU and EEA countries plus Switzerland and Monaco. Within this area citizens and other economic agents may make and receive payments in euros on identical conditions and with the same rights and obligations, irrespective of whether these are transacted within or across national frontiers.

SEPA B2B direct debit scheme

The SEPA B2B direct debit scheme is the payment procedure for the settlement of direct debits in euros within the SEPA area in which both the payee and the payer are corporate users.

SEPA Core direct debit scheme

The SEPA core direct debit scheme is the payment procedure for the settlement of direct debits in euros within the SEPA area. It is open to all bank clients.

SEPA direct debit mandate

SEPA direct debit mandates are granted by the payer in order to authorise the payee to initiate the collection of money from an account specified by the payer. The payer thereby tacitly authorises their bank to execute said collection in accordance with the provisions of the rule-book.

Sequence type

An XML message component which identifies the underlying transaction sequence as either a one-off, first, final or recurring transaction.

Target date

A target date is a banking day on which the ECB's TARGET2 system is in operation. Non-Target dates are Saturdays, Sundays, New Year's Day, Good Friday, Easter Monday, 1 May, 25 December and 26 December.

Ultimate creditor

The end beneficiary of a payment, who is not necessarily the holder of the payee account.

Ultimate debtor

The actual debtor towards the payee, who is not necessarily the holder of the payer account.