

## **Comments on the discussion paper on the application of Regulation (EC) No. 2560/2001 on cross-border payments in euro**

Regulation (EC) No. 2560/2001, in its entirety, has been applicable in the member states since July 2003. The Regulation is based on the principle of equal charges for payments within a member state and for cross-border payments. It extends to electronic payment transactions and credit transfers, though not to checks and debit entries.

The EU Commission's initiative in this regard, adapting the Regulation so as to achieve the intended results, is therefore a welcome development, especially since the proposal for a Directive on payment services in the internal market now exists, creating the legal framework for a single euro payment area (SEPA).

The core issues posed in this regard, in the view of the German insurance industry, will be discussed below:

1. the impact on charges for cross-border payments;
2. provisions regarding credit transfers (OUR, SHARE and BEN as options for charging fees);
3. impact on consumer consciousness, e.g.
  - dissemination and familiarity with IBAN and BIC
  - are IBAN and BIC the right standards?
4. impact on national reporting obligations;
5. application of the Regulation to checks and direct debit;
6. revision clause.

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## **1. Impact on charges for cross-border payments**

The number of cross-border payments as a percentage of total payment transactions in the German insurance industry has been limited thus far.

While it must generally be observed that the charges for cross-border payments of amounts up to EUR 12,500 have declined sharply since introduction of the Regulation, this observation holds true only for standard credit transfers in which the IBAN and BIC are indicated. If the IBAN and/or BIC are absent, however, an added charge is often assessed. The same is true of cross-border credit transfers in euros involving amounts in excess of EUR 12,500 Euro, for which higher charges have been assessed, depending on the amount being transferred. Therefore, raising the threshold for standard credit transfers to EUR 50,000 as of 1 January 2006 would lead to a further reduction in charges for cross-border payments, and thus can only be beneficial.

## **2. Provisions regarding credit transfers (OUR, SHARE and BEN as options for charging fees)**

In domestic payment transactions, fees can only be shared by the remitter and recipient. This should be the case in a single euro payment area as well. The standard EU credit transfer is already a SHARE transaction and the proposal for a Directive on the new legal framework also calls for a sharing of charges for payments of less than EUR 50,000.

However, the absence of an EU Regulation for amounts in excess of EUR 50,000 requires the availability of the OUR and BEN options for amounts above that threshold. In the event of large claims and benefit payments, German insurance companies must be able to ensure that the charges on these payments, which can be very high, will not be deducted from customers' claims. This can only be ensured through an OUR option.

That notwithstanding, we must ask why the Regulation does not apply for amounts in excess of EUR 50,000 as well in cases where the IBAN and BIC conditions are met. If this information is available, there is no obstacle to fully automated processing (straight-through processing, STP).

We have no practical experience with the Spanish model. However, as far as we are aware, banking charges in Spain are higher than those in Germany for domestic payment transactions as well.

### 3. Impact on consumer consciousness

In order to facilitate the execution of cross-border payments, a standardization process is needed, including the use of the IBAN and BIC for fully automated processing.

- **Dissemination and familiarity with IBAN and BIC**  
German insurance companies are largely familiar with IBAN and BIC: policyholders have long received the relevant information regarding the bank accounts of German insurance companies, to an increasing degree through invoices and other documents.

While customer inquiries for IBAN and BIC are increasing in the private customer business as well, the standard EU credit transfer is already used intensively by corporate and industrial customers. IBAN and BIC are used with increasing consistency by German insurance companies for cross-border payments, if the recipient's information is available, and efforts are being intensified to keep IBAN and BIC in operational IT systems.

The number of cross-border payments is expected to rise in the future, at least for German insurance companies operating internationally. In addition to the sharp reduction in banking charges, the introduction of a pan-European direct debit procedure (SEPA Direct Debit) will further increase the flexibility of payments. The associated use of IBAN and BIC in domestic payment transactions as well will further increase familiarity with this data in the private customer business.

- **Are IBAN and BIC the right standards?**

In general, the IBAN and BIC should not be questioned, since they are already established, in some partial systems at least, and in IT systems. Converting IT systems for domestic payment transactions to IBAN and BIC would create a considerable expense for German insurance companies. Especially problematic in this regard is the differing format of the IBAN with respect to field length. Urgent action is needed in this regard in order to keep the complexity and necessary changes to IT systems and operational processes within manageable bounds. Moreover, German insurance companies often receive incomplete information about the remitter's IBAN and BIC, or no information at all, when receiving cross-border payments, particularly in the case of payments which are processed domestically via "central offices" of the recipient banks and forwarded using the German account number and routing number. The failure to forward the IBAN

and BIC (as text and not as a control criterion) thus prevents successive incorporation into the databases of German insurance companies.

A general method for deriving the IBAN from the national account number, national routing number or bank location would also be very helpful: at the moment, this is only possible to a limited extent. Moreover, if the number has to be entered manually, the large number of digits in the IBAN and BIC code represents a not insignificant source of errors. Using the terms "International Account Number" (IBAN) and "Bank Identifier Code" (BIC) instead of "account number" and "routing number" in day-to-day speech has proven unproblematic, in some cases, in communication with private customers. Further clarification is needed in this regard from the European banking industry.

#### **4. Impact on national reporting obligations**

The decision to raise the reporting limit to EUR 50,000 meets with the unqualified approval of the German insurance industry. Eliminating the duty to report cross-border payments less than EUR 50,000 would simplify operational working processes considerably, resulting in a clear improvement in efficiency.

Moreover, if the EU wants to be an integrated internal market, it should consider abolishing the reporting obligation altogether.

The following considerations also support a standardization of reporting obligations:

- harmonization of the national reporting obligations on the EU level and equalization with countries which do not have such a reporting obligation;
- coordination of Articles 3 and 6 and simplification (standard EU credit transfer of EUR 50,000 versus reporting obligation at EUR 12,500).

The minimum requirement would be standardization of the reporting obligations and not including mass payments by setting the reporting threshold as high as possible.

## **5. Application of the Regulation to checks and direct debit**

Checks continue to be an indispensable payment instrument for German insurance companies (unless a surrogate is available), especially in cases of on-site claims settlement and cases in which the payment recipient's banking information is not available, and for providing rapid assistance to victims, with no bureaucratic red tape, in the event of disasters, such as floods. Therefore, checks should not generally remain excluded from the scope of the Regulation and the new legal framework. It would be sufficient to refer to national conditions in this regard. The principles of transparent charges and equal charges should apply for checks as well.

Direct debits have a particular importance in the German insurance industry, as over 60% of premium revenue earned by German insurance companies are collected in that manner. Moreover, a pan-European direct debit procedure is currently being developed as part of the SEPA (SEPA Direct Debit), which will be offered by the European banking industry beginning in 2008. Direct debits should therefore be included in the Regulation, especially since this will be the case in the new legal framework, in contrast to checks. A regulation of charges similar to that for cross-border credit transfers would be advisable.

Regulations for direct debits and credit transfers should also be reconciled in legal standards and principles, to the extent possible and expedient, in order to increase acceptance Europe-wide and to limit the necessary investments e.g. in IT platforms and the design and adaptation of operational processes.

## **6. Revision clause**

The inclusion of a new or revised revision clause is necessary and important with respect to further progress towards a SEPA. However, the new legal framework should form the basis in this regard. The planned 2010 date is consistent with that framework.

Berlin, 5 January 2006