SEPA
DIRECT DEBIT
SEPA is a European Union (EU) initiative aiming at establishing a unique payment system for fast and secure payments with equal standards, formats and rules in the manner of effecting payments.

As of 5 June 2017 the Republic of Croatia will implement the SEPA Direct Debit pursuant to the rules of the Core and B2B HRK SDD scheme.

**What is Direct Debit?**

**Direct Debit** is a payment service for debiting the Payer’s account where a payment transaction is initiated by the Payee towards their Payment Service Provider.

The SEPA Direct Debit requires previous Consent of the Payer to the Payee.

The Consent represents a standardized set of data on the basis of which the Payer allowed the Payee to initiate a payment transaction from the Payer’s account through their Payment Service Provider.

In the Republic of Croatia the SEPA Direct Debit will be in the kuna only, in accordance with the SEPA rules and in keeping with the Core and Business HRK SDD scheme.

**What is the difference between the Standing Orders and the Direct Debit?**

**Standing Orders** remain a service that a Payer unilaterally agrees with their Payment Service Provider and will continue to be conducted as they have been so far. The Payer’s account is debited by a Standing Order with regard to the agreed periodicity in a fixed amount.

**Direct Debit** is a payment service initiated by the Payee towards their Payment Service Provider, on the basis of the Payer’s Consent to the Payee, and the amount to be debited from the Payer’s account is, as a rule, variable monthly.

**Who participates in the SEPA Direct Debit?**

- **Payee (creditor)** – initiates DD payment orders and gives the account which will be credited
- **Payer (debtor)** – the holder of the account to be debited (private individual or business entity)
- **Payee’s Bank** – the bank where the payee holds their account and who had made an agreement with the payee on providing the SEPA DD service
- **Payer’s Bank** – the bank where the account is held and who executes the debiting of the Payer’s account
- **Settlement System (NCS)** – the central processor of interbank transactions

**What are the Advantages of Direct Debit?**

Contracting of the Direct Debit service ensures the following to the Payee:

- secure execution of and more efficient collection, within the previously set deadline
- transparent liquidity and collection management
- performing the Direct Debiting with one commercial bank by using the unique payment instrument pain.008
- automatization of the collection process and reducing of administrative business expenses
Advantages for the Payers:
• a simple way for regular payment of obligations with reduced risk of defaulted payments

National Migration Plan
What does the national migration plan to SEPA DD mean?

In the interim period the banks will:
• provide for the existing payees to execute DD orders according to the current procedure by June 2019 at the latest,
• provide for the existing payees to migrate to the new SEPA HRK SDD scheme in accordance with the official deadlines published on the SEPA web site,
• provide for the new payees to contract Direct Debits in accordance with the new HRK SDD scheme rules.

Prerequisites for Use
What are the prerequisites for using the HRK SDD scheme?

• the Payee is required to contract the Direct Debit Service Agreement with their Payment Service Provider who entered the HRK SDD scheme, i.e. who is registered to provide the said service (SEPA Direct Debit Service Provider Registry, available on the official SEPA site www.sepa.hr)
• the Payee and the Payer are required to hold open accounts with their respective banks
• the Payer’s Consent
• technical adjustments of the business systems of the Payee and of the Payment Service Providers who offer the SEPA Direct Debit scheme (ISO XML 20022).

Obligations of the Payee:
• responsibility for identification of the Payer when signing the Consent,
• obtaining the unique Consent Identifier issued by the FINA through the commercial bank with which the Payee contracted the SEPA Direct Debit Service.

Rights of the Payer:
• consumers can request from their bank to limit the Direct Debit collection to a particular amount and/or time frame
• the Payers can block all Direct Debit orders for a defined Payer’s account or all Direct Debit orders from one or more Payees (Black Lists)
• consumers can authorize execution of only Direct Debit orders from one or more Payees (White Lists)
• the Payers can reject payment 1 day before the execution day at the latest
• consumers can request unconditional refunds for any executed DD order within 8 weeks from the execution day for authorized transactions
• in keeping with the SDD scheme, the Payers can recall their signed Consent at any time
There are two SDD HRK schemes:

- **Core HRK SDD scheme**
  - the Payer - consumer (private individual) gives the Consent to those business entities who offer such form of collection on delivered goods, services
  - the Payer signs the Consent with the Payee directly
  - the bank is not obligated to control the data given in the Consent for the Core scheme
  - the consumers’ right to refunds within 8 weeks for authorized transactions

- **Business HRK SDD scheme (B2B)**
  - the Payer - business entity gives the Consent to those business entities who offer such form of collection on delivered goods, services
  - the Payer is required to present the Consent for inspection to their commercial bank
  - the Payer’s bank controls the data given in the SDD order against the data in the Consent
  - the Payer does not have the right to requesting refunds within 8 weeks, save in the case of an unauthorized transaction – 13 months

**Rules in Executing SEPA Direct Debit Orders**

- before placing an SDD order the Payee is obligated to notify the Payers of the amount and the date of execution, the preliminary notification (in the form of an invoice) 14 days before the order execution day at the earliest, or in the manner as agreed with the Payers
- 14 days before the order execution day at the earliest, and 1 business day before the execution day at the latest, the Payee is obligated to deliver the DD orders in the form of the pain.008 database to the bank with whom they have agreed the service
- the SDD order is executed if it is possible to execute the collection from the Payer’s transaction account in the full amount placed
- if the SDD order cannot be executed from the Payer’s transaction account, the Payer’s bank notifies the Payee of that by feedback

If Direct Debit cannot be executed, exceptions or R-transactions arise:

<table>
<thead>
<tr>
<th>R message type</th>
<th>Initiator</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Before debit/credit</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>REJECT</td>
<td>Payer’s/Payee’s bank clearing system</td>
<td>Incorrect format, incorrect IBAN, non-existing account, etc.</td>
</tr>
<tr>
<td>REFUSAL</td>
<td>Payer</td>
<td>Payer refuses payment</td>
</tr>
<tr>
<td>REVOCATION</td>
<td>Payee</td>
<td>In case of error</td>
</tr>
<tr>
<td><strong>After debit/credit</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>REVERSAL</td>
<td>Payee</td>
<td>In case of calculation error</td>
</tr>
<tr>
<td>REFUND</td>
<td>Payer</td>
<td>Unconditional refund for consumers up to 8 weeks, or for all unauthorized transactions up to 13 months</td>
</tr>
</tbody>
</table>
For every type of the R-transactions there are pre-defined rules and deadlines. Detailed rules and conditions are defined under the Rules of the Core SDD HRK Scheme and the B2B SDD HRK Scheme, and these are available on the official web site: http://www.sepa.hr/upute-za-korisnike/sheme-za-sepa-izravno-tercenje/

What actions are required to prepare you for the implementation of the SEPA Direct Debit service in accordance with the SDD rules?

Technical adjustments on the Payee’s side:
• adjustment of the payment database to the XML format according to the ISO20022 standard – pain.008
• adjustment of the SW support for receiving information on order status and on prescribed codes –pain.002
• provide for initiating the R-transactions pain.007
• provide for receiving the camt statements

Operational adjustments:
• for the SEPA Direct Debit service it is necessary to execute all activities in time before the set deadlines for migration to the SDD scheme
• before the migration to the SDD scheme arrange a testing of messages with your commercial bank

The required documentation and the final formats are available on the official SEPA web site http://www.sepa.hr/upute-za-korisnike/.