

Find the best route

There is less than a year remaining before the first Single Euro Payments Area (SEPA) deadline comes into effect. Multinational companies affected by the upcoming legislation are understandably taking the challenge of achieving compliance on time very seriously. In developing their approaches, businesses are, on the whole, asking the right question: what is the best way to invest for the future while integrating SEPA's requirements into our current systems and processes? However, while they may be asking the right question, they are not necessarily asking it of the right people.

WHO TO RELY ON Businesses may be relying too heavily on banks for support in developing the systems needed for SEPA compliance. The major banks are typically more focused on the ability of their own systems infrastructure to cope with SEPA, rather than on the requirements of their customers.

Furthermore, many banks lack the necessary understanding of the capabilities of technology for reducing and eliminating complexity in transactional and financial management systems. This should come as no surprise. We look to banks for their expertise in managing money, investments, liquidity, credits and payments, not for their prowess in IT. Yet a number of banks are investing tens of millions of pounds in developing payments systems for their customers' SEPA and wider cash management requirements which are inflexible, of limited functionality and unable to adapt to change.

Currently, corporate cash management departments have to manage multiple connectivity options to their banks: dial up, host-to-host, FTP, HTTP, the list goes on. But these corporate-to-bank connectivity options are time-consuming, cumbersome and out of step with the technology innovation available today. An additional problem faced by corporations is with the variety of formats required by different payment systems.

There is a pressing need for the standardisation of corporate-to-bank connectivity. Corporations currently require payments systems that are capable of sharing information in a variety of formats with a number of banking partners as well as with other areas of the business. Corporations need – and are increasingly demanding of their banks – a cash management system that is bank-neutral and integrates with their back-office financial management or enterprise resource planning (ERP) systems. Businesses are looking to link their physical and financial supply chains to provide company-wide visibility and control of business and financial processes.

What corporations do not need are inflexible, bespoke solutions to their SEPA requirements. Rather, they need systems based on open standards, and able to adapt to evolving regulatory and business requirements.

WITH THE DEADLINE FOR SEPA LOOMING, NICOLA TOOMBS QUESTIONS WHETHER BANKS AND THEIR CUSTOMERS ARE FOLLOWING THE BEST ROUTE TO COMPLIANCE.

UNDERSTANDING THE CONVENTIONS One of the primary challenges that corporations face in preparing for SEPA is the need to understand the requirements of the interbank convention on payments for bank identifier codes (BIC) and international bank account numbers (IBAN), and being able to adhere to them in the use of their records and payments messages databases for straight-through processing. For example, corporates risk incurring a 'repair' fee from their intermediary bank every time a payment is issued without the correct BIC and IBAN data.

The issue for businesses is that BIC are not codes they have traditionally dealt with, and not all their systems will necessarily be able to recognise, use or repair the codes. Additionally, as cash management departments typically have multiple banking relationships, connectivity protocols, file formats and back-office systems, any difficulty in processing payments as a result of errors with a BIC and IBAN can cause significant and extremely costly delays.

Moreover, the financial implication for business is not simply one of repair charges. There is now the potential for interest costs when the beneficiary does not receive funds on time because a payment has stalled.

As a result of repair and interest fees, the reality is that banks actually stand to profit from their corporate customers' lack of SEPA readiness. It is therefore not necessarily in a bank's best interest to help its customers get their systems up to scratch.

Corporations can overcome this difficulty by working with the provider of their ERP technology to develop a central payments hub within the organisation itself. This enables the company to pool information on liquidity from their multiple banks, view the status of their payments and complete the necessary BIC and IBAN validations in-house for all payments.

Payments hub liquidity management solutions designed to address the current complexity of corporate-to-bank connectivity are available now and can be implemented in a matter of months rather than years. Such corporate-to-bank solutions consist of a central

Executive summary

- Major banks are investing tens of millions of pounds in developing proprietary IT systems to support customers in their progress towards SEPA compliance. But is this money well spent? A co-ordinated approach involving the banks, their customers and software providers could deliver transactional and financial management systems fit not just for SEPA and corporate-to-bank connectivity, but evolving regulatory and business requirements as well.

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advisers to their corporate customers. To justify that privileged role, banks should be able to provide customers with clear guidance and direction on the most appropriate ways of preparing for SEPA compliance while addressing their business issues. And yet, there is a gap among the banking community in its current knowledge about what ERP systems are capable of and their importance to the effective management of a business. Banks need to understand how a corporation's systems sit together, the role of legacy ERP applications in the organisation, and the place that corporate-to-bank connectivity has in that framework. Providing recommendations on technology that would let corporate customers communicate with all banks, not just one, would be a step in the right direction.

A FRANK AND CONSTRUCTIVE DIALOGUE Banks would benefit from a better appreciation – achieved through frank and constructive dialogue with the technology industry – of the role that an interconnected IT infrastructure can have within the business. With this understanding, banks would be ideally placed to develop more innovative, competitive propositions. This alignment of the financial supply chain with banks' corporate customers' physical supply chains would enable banks to proactively monitor, predict and pre-empt their corporate customers' liquidity requirements.

Alignment could be achieved through expanding the payment factory into a complete cash management solution, incorporating cash positioning, cash forecasting and treasury software modules. This extra functionality would give banks a better understanding of their corporate customers' supply chain, giving them a competitive edge in offering services such as foreign exchange and trade finance. It would allow banks to make lending decisions based on more accurate information and give them the ability to predict corporate customers' liquidity requirements.

SEPA presents a wealth of opportunities for forward-thinking businesses to integrate payments systems with business management systems, improve liquidity management and automate payment processing. For the banks the opportunity lies in the development of cash management and liquidity services that truly meet the demands of business. It is vital that the banking community builds on its relationships with the leading software suppliers and develops the necessary understanding to capitalise on these opportunities for the benefit of their customers.

Oracle will be hosting a roundtable at The Treasurers' Conference in Edinburgh 2-4 May to explore the issues raised in this article. Please visit www.treasurers.org to register for attendance. See also the ACT Cash Management Conference Report with this month's edition or visit www.treasurers.org.

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payments factory hub product – a financial gateway – that integrates with a business's existing ERP systems as well as with the cash and payment systems of banking partners. The financial gateway supports straight-through processing of payments by providing different ways of capturing payments originating from ERP systems, including capturing payments through web services.

Such a system gives integrated liquidity management through one application, allowing the corporate to avoid being tied into banks' proprietary internet banking products. SEPA-compliant, it enables corporations to manage and oversee all their payments from a single platform and facilitates the formatting, validation, approval and release of clean payment instructions to banks and external payment systems. A SWIFTnet gateway gives organisations direct corporate access. Such a solution is available directly to corporations or could be provided by banks on a 'white-labelled' basis, where corporate customers receive the functionality as part of their internet banking.

TYPICAL BUSINESS PROCESSES Typical business processes such as centralising payments across multiple systems into a payments factory, formatting payment files, dispatching the files to banks, processing acknowledgements from banks and managing exceptions can be simply orchestrated through business process execution language (BPEL) technology. A BPEL process manager captures instructions from ERP systems and posts them to the financial gateway, which dispatches the payments to the banks using one of its connectivity options.

If the technology is available to address SEPA compliance and meet corporations' business requirements, then it's worth examining why these solutions are not paid sufficient heed.

Once a software system has been implemented, ERP suppliers will enjoy contact with a corporate customer perhaps once a month, whereas banks are in a unique position to really get under the skin of their customers through almost daily contact.

Banks rightly pride themselves on their status as trusted financial