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Executive summary

- 1 January 2008 marks the start of the Single Euro Payments Area (SEPA)
- The current impetus among corporates to control risks and reduce costs has led to a greater centralisation of cash management structures and SEPA will accelerate this trend.
- There are changes that corporates need to make immediately in preparation for the SEPA live date.
- Although SEPA has many advantages, there are also some drawbacks. It is limited from a geographical perspective, as it does not cover the whole of Europe, or incorporate all its currencies. And it is limited from a technological perspective, as it does not support all payments instruments or deal with corporate-to-bank connectivity, which is a critical issue in the payments world.

UNDERSTANDING THE OBLIGATIONS OF SEPA IS ONLY HALF THE STORY. A TIMELY AWARENESS OF THE MANY BENEFITS THAT SEPA WILL BRING TO CASH MANAGEMENT STRUCTURES WILL ALLOW CORPORATES TO STAY AHEAD OF THEIR GAME, SAYS **KAROLINE VON RICHTHOFEN**.

The live date for SEPA is looming. By now, most corporates will be aware that 1 January 2008 marks the start of the Single Euro Payments Area (SEPA). It has been a cause of trepidation for some, but the limitations that SEPA imposes on cash management structures have obscured its many benefits. It is critical for corporate treasurers to understand not only the impact that SEPA will have on their existing structures and relationships, but what positive changes there will be to efficiency, automation and the centralisation of functions. In addition, the limitations of SEPA need to be addressed and, as far as possible, overcome.

The current impetus among corporates to control risks and reduce costs has led to a greater centralisation of cash management structures. Indeed, SEPA will accelerate this trend, providing the opportunity for companies to cut costs both through scale with central structures, and through reduced banking fees. This may lead to the creation of in-house banks, shared service centres and payments factories – via streamlined IT platforms. Certainly, with increased scale and fewer bank accounts and relationships, corporates get better prices and conditions, lower cost of connectivity and harmonised processes and service levels – all of which reduce indirect costs.

SEPA'S MANY BENEFITS Across the euro zone, the complexity of clearing systems, accounting platforms, legal frameworks and the sheer number of payment instruments in existence (many with unique features) will be reduced. The handling of payments will also be simplified, as all incoming and outgoing payments can use the same format. SEPA should even limit the need to maintain local bank accounts for payment purposes and it could eventually mean that corporates will be able to perform their local and cross-border transactions from just one bank connection in Europe. Indeed, by consolidating their payment and liquidity management into one location, corporates will benefit from easier and faster transfer of funds, as well as a reduction in associated costs.

SEPA has also pushed the demand for greater automation and rationalisation. Corporates are looking for greater automation of interfaces, both internally and with third parties. They are seeking to maximise their use of IT systems and rationalise banking relationships and bank accounts. There is also a push towards standardisation, particularly in corporate-to-bank connectivity, through industry-wide XML formats and the use of Swift and SwiftNet as a standard between corporates and banks. Here, the true end-to-end nature of SEPA reference data fields is expected to drive much needed efficiency gains in the automation of payments reconciliation.

At the same time, the introduction of the pan-European SEPA direct debit scheme will bring about new business opportunities that will be beneficial for corporates in typical business-to-consumer industries like telecoms, insurance and utilities. Indeed, for the cross-border collection business, this scheme marks a significant development in the creation of a true domestic market in Europe. The SEPA direct debit is a real innovation as there is really no instrument available today that allows for pan-European collections with a "pull mechanism".

SEPA should also accelerate the harmonisation of price levels across Europe for the instruments covered, which currently record enormous variances. And the rise of shared service centres (SSCs) and payment factories will improve conditions for large corporates and multinationals that have already embarked on setting up a payment factory or SSC. SEPA will allow them to streamline their existing

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setups through further consolidating bank relationships and transferring accounts to a central location. Smaller corporates, which do not currently have this economy of scale, will now have a much easier task of establishing their own pan-European payments factory.

SEPA significantly helps reduce the complexity surrounding such a centralisation project (different payment instruments, formats, timelines, and so on), which should lead to faster implementation and ultimately more beneficial break-even scenarios. Nevertheless, even in a SEPA environment, SSCs and payment factories usually take a supra-regional (if not global) view and do not focus on Europe alone. There continues to be a strong need for a banking partner that is able to deliver not only in Europe but the world in terms of payment know-how, capabilities and service levels.

BANK AND TECH SUPPORT Yet issues remain. The setting up of the international bank account numbers, IBAN and BIC, has been a cause of some anxiety, due to the fact they will become the single identifier for both national and international payments within Europe. This means that corporates will have to add the relevant data of each counterparty in the financial supply chain. Consequently, corporates will be subject to penalty charges and delays in their payments if they do not supply the correct international bank account number (IBAN) and bank identifier code (BIC) information in their payment messages.

In several countries, efforts are under way to help corporates with the translation of national bank and account identifiers into IBAN and BIC. There is still some work to be done on a European level and corporates are becoming increasingly anxious. Again, corporates should keep in close contact with their banking partners to be on top of the latest developments in this area.

IMMEDIATE TASKS Yet some changes need to be made immediately in preparation for the SEPA live date. Certainly, those corporates that are not yet up to speed on SEPA should begin by analysing their use of non-SEPA instruments, on a country by country basis, to determine where migration is possible. Cheques could be changed to credit transfers, and national collection instruments could become direct debits, utilising the framework of the recently approved Payments Services Directive.

When dealing with countries where specific national instruments continue to be used, partial account consolidation will have to be adopted, and corporates need to be prepared for this. They should also start to assess the use of the dedicated data reference fields and structured remittance information – both of which are end-to-end in nature and cannot be truncated as with SEPA rules – throughout their financial supply chain in order to benefit from the efficiency gains as soon as possible.

However, it is also important to appreciate that there are some drawbacks to SEPA. It is limited from a geographical perspective – as it does not cover the whole of Europe, or incorporate all its currencies – and from a technological perspective, as it does not support all payments instruments or deal with corporate-to-bank connectivity, which is a critical issue in the payments world. And these limitations could have a detrimental effect on centralisation projects that usually include the whole of Europe (if not the world) and the related instruments used in each market.

In addition, there are other problems, such as the late ratification of the Payment Services Directive, which has made it difficult for corporates to know exactly when the SEPA direct debit will be launched across all SEPA countries (in the directive, however, the transposition deadline is set for 1 November 2009 – by when it will have to be implemented into national law in the member states). This has left corporates uncertain about when and where to invest in order to prepare for changes and take maximum advantage of opportunities.

Of course, other contentious issues remain – including the phase-out of legacy instruments and central bank reporting requirements. Yet none of these issues is likely to derail SEPA, meaning that corporates need to be proactive in ensuring they negotiate the potential pitfalls and lock in the potential benefits. Indeed, the corporates that lead the field will ensure they enjoy the greatest benefits in the shortest time frame. And working in partnership with a bank that covers Europe and the rest of the world may be the optimum route for achieving this.

Karoline von Richthofen is Head of Corporate High Value Payments, Cash Management, at Deutsche Bank.
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