

Looking for visibility

JULIA BERRIS REPORTS
ON THE LATEST THINKING
ON PAYMENT
SERVICES AND
TECHNOLOGY.

All treasurers want to simplify transactional processing as much as possible. While claiming that simplification is at the heart of the treasurer's role may be an exaggeration, being able to complete processing with minimum complications and producing accurate and timely management information are two objectives that all treasurers should be striving to achieve.

This need is much the same in banks and financial institutions, with more streamlined processes improving the visibility of funds and the flow of information between banks and corporates.

Colin Day, Director of SunGard STeP (Straight Through Enterprise Processing), says: "Processes can be highly complex. What our clients are trying to do is simplify the picture. The payment processes and flows are starting to develop and we see dramatic changes in the landscape. New market initiatives are very important for this change. The likes of Target 2 [see Box 1] and the Single Euro Payments Area [SEPA] are making a real difference."

MARKET INITIATIVES Day argues that these market initiatives are heightening the need for faster and more accurate information for banks and corporates. The emphasis is on reducing costs and making

Executive summary

- As banks gear up for SEPA's introduction in 2008, the pressure is on to develop compliant products and processes
- Banks must move more quickly with their development of SEPA migration plans and instruments.
- Technology companies estimate that the cost to a corporate of establishing a SEPA processing system is somewhere between €500,000 and €1m.

more effective investment decisions.

The development of real-time information allows corporates to have better visibility of their cash. Technology companies are therefore keen to develop a range of products that complement SEPA and improve key processes.

Day says: "If corporates are able to receive transactions and balances in real time, they will be able to take that information to the back-office reconciliation system, and match it real time to the



Box 1. On Target

The Trans-European Automated Real-time Gross Settlement Express Transfer (Target) payment system consists of 15 national real-time gross settlement (RTGS) systems and the European Central Bank payment mechanism. The national RTGS systems and the ECB's payment mechanism are interconnected by common procedures (interlinking), so that Target gives access to 1,100 direct participants and 48,000 credit institutions (including branches and subsidiaries) for the real-time processing of cross-border transfers throughout the EU.

ledger. Matching information to the ledger in real time has been a problem in the past. Once the data has been reconciled, you need a mechanism that will be able to start investigating the exceptions that are identified via the matching and reconciliation process."

Identifying these exceptions earlier on in the process makes all the difference to accuracy and maintaining a good flow of information. Regulatory pressures have made exception identification important to banks and corporates.

Day says: "Regulatory clampdowns on manual processes have been very influential to these processes. The regulators have said that you really need to be able to demonstrate that you have a well-defined set of processes in order to manage your activity."

SEPA has had a big impact on processes and as banks gear up to 2008 the pressure is on to develop SEPA-compliant products and processes that work well with SEPA.

Day says: "Many banks will not have a full range of SEPA services available in 2008. Those banks that do will have a substantial competitive advantage. There are many initiatives around the world that try to simplify the process. Ultimately, payments from a corporate point of view will be cheaper and the way in which corporates can link their systems to the payments world will adjust. Corporates will need a gateway that gives them access to SEPA, provides a straightforward process and is not too costly."

INVESTMENT COST Chief Operating Officer at Sungard Avantgard, Martin Boyd, estimates that corporates will need to invest between €500,000 and €1m to establish a system that will allow them to process via SEPA. He says: "The whole purpose of payment harmony is to simplify the integration internally with easy-to-use tools. There will be an investment cost that corporates will have to put in but it will be worthwhile."

Box 2. Concentrate on SEPA before it's too late

Julia Berris unearths the lessons for corporates and banks from the World Payments Report 2006.

Corporates and banks need to turn their focus on how the Single Euro Payments Area (SEPA) will benefit them and what preparations they need to make in order to be ready for SEPA.

SEPA is set to change the payments landscape in Europe dramatically, making it easier and more efficient to make payments.

A series of rulebooks and frameworks have been developed by the European Payments Council (EPC) to provide banks with greater understanding and guidance on how they should adapt their products to suit SEPA and work well within the new system.

Are European banks prepared for SEPA? The *World Payments Report 2006*, carried out by ABN Amro, the European Financial Marketing Association and Capgemini, looks at the payments environment in nine European countries. It focuses specifically on SEPA and the challenges it presents to corporates and banks in those countries.

While the report stresses the need for banks to move more quickly with the development of migration plans and SEPA instruments, it also highlights differences in payment trends in countries across Europe.

Managing Director of Transaction Banking, Anne Boden, says: "SEPA is all about harmonising processes across Europe. At the moment there is different behaviour with payments in each of the countries the report studies. Some countries have a high percentage of card transactions and others rely more

As SEPA fast approaches, corporates are being told they should be putting time and money into preparing for 2008. However, some corporates have felt excluded from the discussions and preparations that banks have been involved in for some time.

Boyd says: "It has been argued that many corporates have not come forward in a proactive way to engage on this topic.

"It would be good if there was a corporate club that would get together and push this thing, but sadly this doesn't seem to have happened.

"If corporates haven't got a plan so far they will need to start considering when and how they will be planning for SEPA."

Ultimately, SEPA is about making processes for corporates and banks easier. A single payments area breaks down barriers, enabling a smoother payment system for corporates to use.

Day says: "If you are getting real-time information throughout the day, then you can make better investment decisions. You are in a position to make better hedging decisions and can consider more carefully how you want to manage risk. There would be a lot more proactive information.

"Real-time exchange of data has value across the enterprise. If I have visibility of my cash, then I am able to make more coherent funding decisions."

Day argues that corporates are becoming more sophisticated about which banks they do business with largely based on the level of customer service that banks are providing.

If a bank can offer corporates real-time services via visibility of cash and a range of good SEPA products, Day says that corporates will favour them.

Julia Berris is a Reporter on *The Treasurer*.
editor@treasurers.org

heavily on cheques. Looking at Europe as a whole is quite different to breaking it down into smaller areas."

When considering payment trends across Europe as a whole rather than just in individual countries, the report reveals that some products are already operating in a way that is close to a SEPA model while others, such as cheques, are not so compatible.

In the six euro zone countries studied in the report, 85% of all non-cash payments already take place in SEPA-like instruments such as credit cards, direct debits and credit transfers. The report argues that this suggests a critical mass of SEPA products can be achieved with relative ease.

Of current volumes 13% are already SEPA-compliant and 45% can be transformed into SEPA-compliant transactions fairly easily.

Bertrand Lavayssiere, Managing Director at Capgemini Global Financial Services, says: "The 45% is a manageable gap. There is still work to be done but we think that it is feasible that they will be compliant by 2008.

"Two years ago we predicted that the overall banking cost of being SEPA-compliant would be over €10bn."

The issue of compliance needs to be addressed by corporates and banks. With differences between countries and products creating an uneven playing field, what should the banks be doing to ensure they are ready for 2008?

Lavayssiere says: "In order to migrate from the existing system to SEPA, we will need national migration plans. Obviously, these plans will differ from country to country. But if the migration plans are not done soon and we are not SEPA-compliant, we will not get the volume of transactions that is needed."

Lavayssiere argues that banks need to think about how SEPA will affect various products and discuss how it will affect their profitability over the next five years.

The report also examines the new rulebooks and frameworks that have been developed to define and explain the various banking products. Banks need to compare their products to the guidelines set out by the European Central Bank and see how they fit into the world of SEPA.

Boden says: "I think banks need to start being compliant now. There is not much time left, so they have to start moving towards SEPA now.

"In this new world, the pricing of payments will fall. Banks need to look at how they carry out payments and see whether they need to use a different sort of product and a different price."

Boden says that banks will have to work on SEPA compliance through two parallel projects. "One is that they need to become compliant, and the second is that they need to figure out how they are going to deliver payments in Europe on time."

Compliance with SEPA and ensuring that the resulting new methodologies are made the most efficient option in the payments landscape is not going to be easy for banks.

The way in which they choose to work and structure products will inevitably be overhauled and this will create revised pricing structures.

Boden says: "Migration plans are critical to it being a success. Banks need to make sure that they have done enough to keep up the number of transactions in the new world of SEPA."



Why should Corporate Treasurers care who is holding their debt?



Half Day Conference **Tuesday 6 February 2007** Drapers' Hall, Throgmorton Street, London

- Hear thought provoking perspectives from:
- Clifford Chance
 - Financial Times
 - Fortis Bank
 - Invensys
 - Jarvis
 - JPMorgan Chase
 - N M Rothschild
 - Standard & Poor's
 - TPG Credit Management
 - Yell Group

Sponsored by

STANDARD
& POOR'S



ROTHSCHILD

Register online: www.treasurers.org/events