

For 10 years, Europe has been developing the concept of a single region that can transact across borders in the same way as we do within national, domestic borders. This grand dream is finally becoming a reality, particularly now that there is an immovable deadline in place to ensure it happens. A regulation agreed by the European Parliament in February 2012 states that every direct debit and credit transfer must take place in Single Euro Payments Area (SEPA) formats by 1 February 2014 for all eurozone banks, and by the end of October 2016 for all non-eurozone banks in the EU.

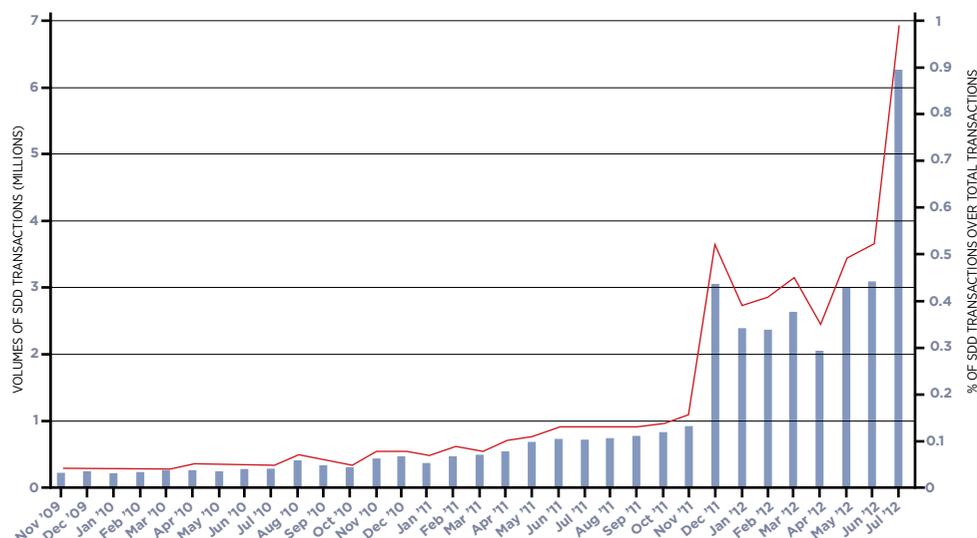
It's not a light undertaking, as the bank system is built upon many different structures, few of which are consistent across borders. This is why there has been a major block to SEPA migration for many countries, for while credit payments are considered to be straightforward, receivables are more challenging, with direct debits in France being very different to those in Germany, which differ immensely from those in Italy, and so on.

Italy has two forms of direct debit: one is bank managed (RID), while the other is managed by a request from the creditor to the debtor (*ricevuta bancaria*, also known as RIBA). RID is migrating to SEPA direct debit (SDD) formats, while RIBA is not, as it falls under the optional services allowed under the Payment Services Directive, which provides special conditions for localisation to enable migration.

Immediately, you can see that this is not a simple process, and is the reason why migration to date has been slow.

By July 2012, less than 1% of the total volume of direct debits in the eurozone were being transacted in SEPA formats. This is the biggest challenge for banks and corporates

## SEPA DIRECT DEBITS AS A PERCENTAGE OF TOTAL\*



in complying with the end-date requirement, although the issue is of greater concern for corporates than for banks.

Banks have widely adopted SEPA processing capabilities by using links to processors that use these formats, such as the bank-owned Euro Banking Association's straight-through euro payment (STEP) system, a European automated clearing house. But the corporate community still has to realise the opportunity and then adopt SEPA formats.

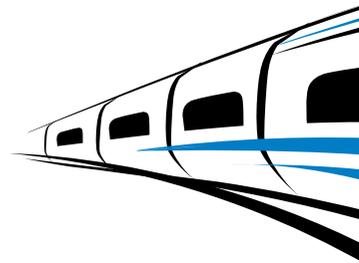
As with the IBAN and BIC changes of the past decade, it is critical that the corporate community takes action. Banks can adopt and offer SEPA-compatible formats and capabilities, but if their customers do not adapt and adopt

such services, then SEPA fails. In the case of IBAN and BIC, regulators mandated their usage so it became clear that companies that did not change to these standards would face higher charges. This is because the bank would have to do the work on behalf of the customer and therefore the customer would need to pay. It is highly likely that this will be the case again, as the end-date will mean that banks will all be required to process corporate direct debits and credit transfers in SEPA format.

### What do you need to do?

This is a fundamental question and many banking industry bodies have prepared papers and documentation to help corporates

# The end of the line



IF YOU ARE NOT ALREADY ON BOARD THE MIGRATION TRAIN, YOU HAD BETTER GET ON FAST, AS SEPA FORMATS BECOME MANDATORY IN FEBRUARY 2014, SAYS JOHN SALTER

prepare for SEPA migration. The one we would recommend, if no other, is the SWIFT paper issued in March 2012, *Clearing the SEPA way: It's time for action!* According to the paper, companies need to:

- ◆ Build a clear picture of the instruments they are clearing, channel by channel, transaction type by transaction type;
- ◆ Create a checklist detailing which of these instruments they need to migrate to SEPA compliance;
- ◆ Determine the business value of SEPA compliance and whether it supports their overall strategy for clearing; and
- ◆ Select the right messaging provider to support them.

This is only half of the equation, however. The core question has to be: who is the right partner for you?

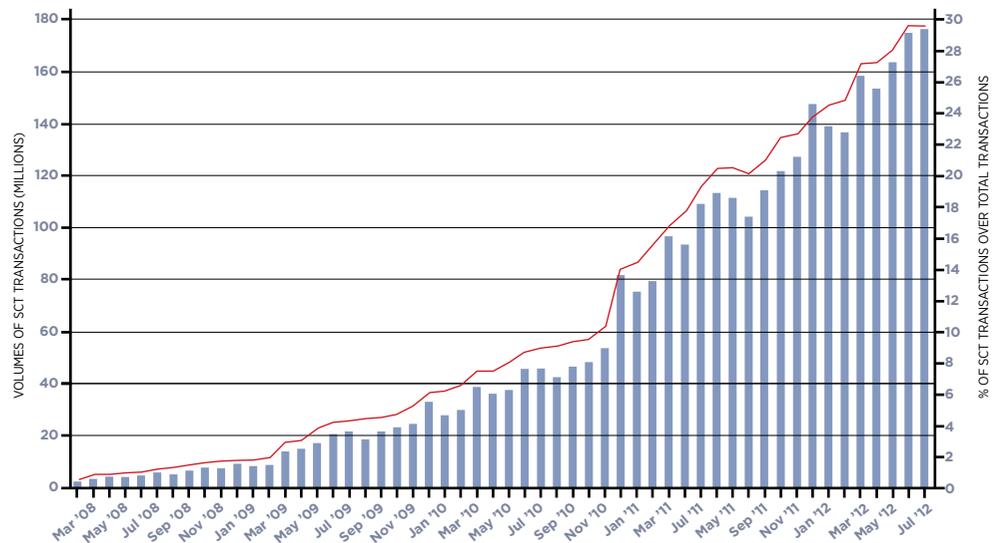
You can only answer the question by checking with your existing bank partners that they will accept payment files in 2014 at the same costs as today, and that all of your group-wide payment systems are XML-enabled. The latter is the core technology standard, along with ISO20022, that SEPA leverages to deliver low-cost cross-border payment processing, and you will need to ensure that all of your business units can reflect the SEPA payment master data in their systems and on their invoices and other documents.

It goes further than this, too. You will need to ensure your bank has adopted these standards at today's processing costs, and can support you in your SEPA migration.

### The good news

It is obvious that migrating direct debits will not be easy for all, but the good news is that a lot has been achieved already. The SEPA formats

## SEPA CREDIT TRANSFERS AS A PERCENTAGE OF TOTAL\*



were put into place fully in 2008 and the credit transfers are already well established.

Almost 30% of all eurozone credits are now processed in SEPA credit transfer (SCT) format and 80% of card payments are in the Europay MasterCard Visa format.

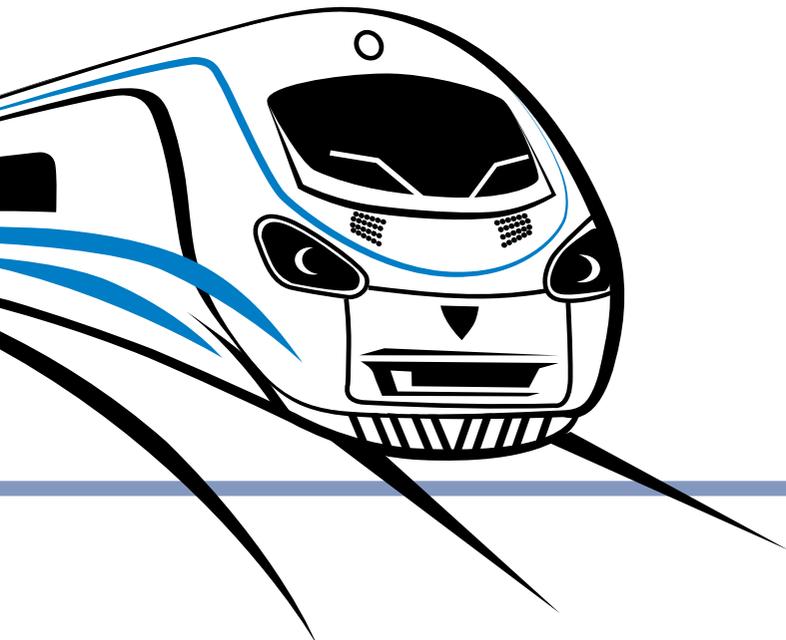
In addition, the European Payments Council recently found that most organisations and individuals (86%) in Europe are now using IBAN and BIC in their transactions. These signs are encouraging and show that, with just over a year to go, the migration to SEPA formats as a regulatory requirement is achievable, albeit challenging.

Ultimately, there is no alternative to SEPA since it is, after all, a regulatory requirement.

So if you are not already on board the SEPA migration train, then you had better jump on quick. 🚀

**Building your SEPA migration process may seem a huge challenge. But banks that are experienced in SEPA migration, such as Lloyds, should be able to help you by providing an independent and objective service. Just ask us what we can do.**

The SWIFT paper entitled *Clearing the SEPA way: It's time for action!* is available at: [www.swift.com/resources/documents/SWIFT\\_white\\_paper\\_SEPA\\_II.pdf](http://www.swift.com/resources/documents/SWIFT_white_paper_SEPA_II.pdf)



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