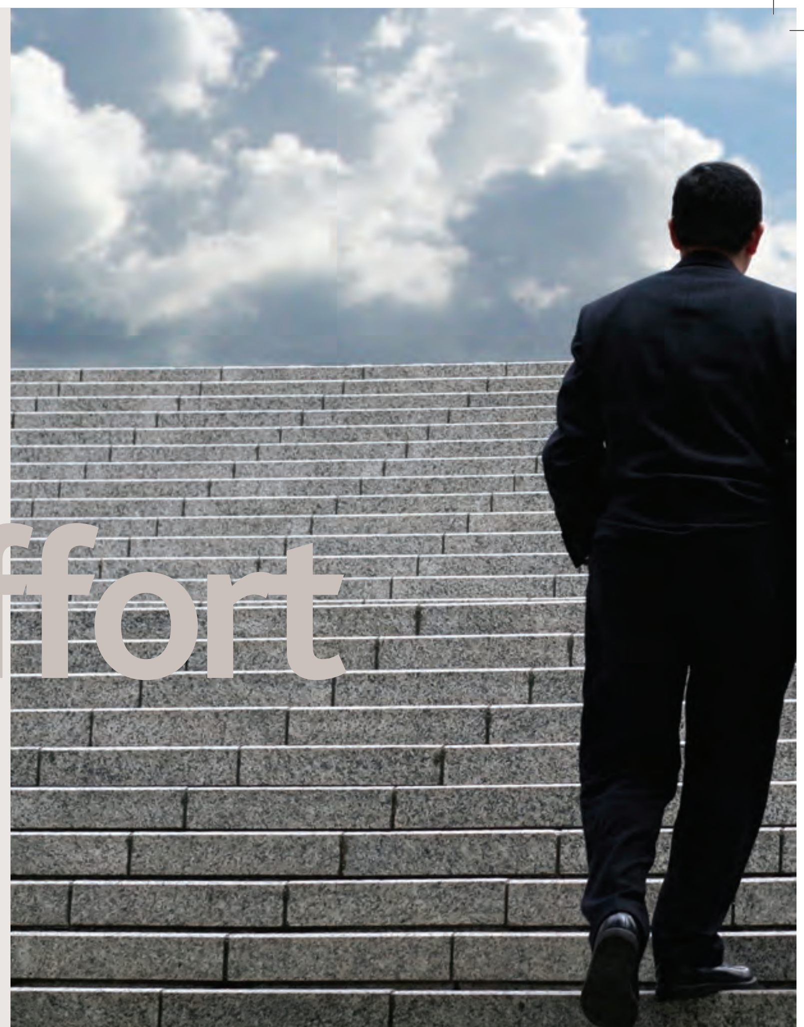
Step up the effort



Executive summary

- Phase I of SEPA, introduced at the end of January 2008, covers credit transfers and enables banks' retail and corporate customers to transfer euros through identically structured payment orders with a guaranteed execution time. Phase II, under which other SEPA-related system upgrades are introduced, is scheduled to take place this year and next. Despite the enormous potential benefits there is a widespread feeling that things are not as ready as they should be and there is still a great deal of unfinished design and implementation. Ultimately, it looks as though the banks will have to increase their efforts to promote the full range of benefits to their customers.

Earlier this year the European Union's Internal Markets Commissioner, Charlie McCreevy, said: "I don't think the consumer will be waking up shouting 'eureka', or anything like that, but over a period of time we believe enormous benefits are going to accrue to consumers and businesses in Europe."

McCreevy was speaking of the Single Euro Payments Area, or SEPA, a private sector project devised by the main European banks. The initiative promises to revolutionise Europe's payment infrastructure by removing the differences between national payments and cross-border payments within the euro area.

The aim is to standardise all electronic payments across the EU – including bank transfers, direct debits, and credit card and debit card transactions – by adopting common processing standards and systems. The benefits should be felt both by EU citizens and corporates alike. The latter will find that their cross-border operations may no longer require separate bank accounts for each EU country in which they operate. Retailers with branches across Europe should find there is less risk of losing a sale because a customer's domestic payment card is rejected.

Phase I of SEPA, introduced at the end of January, covers credit transfers and enables banks' retail and corporate customers to transfer euros through identically structured payment orders and with a guaranteed execution time. Phase II, under which other SEPA-related system upgrades are introduced, is scheduled to take place over the course of this year and next.

In 2009, SEPA direct debits will go live and payments providers will be required to comply with the European Commission's Payment Services Directive, which offers a pan-European legislative platform for the payments industry.

The original target had been to introduce credit transfers and direct debits together, but the latter required each country's legal framework to be changed, says Anne Boden, Head of Europe, Global Transaction Services, at RBS. This work will take until November 2009.

However, the Payment Services Directive is wider in its remit. It doesn't just legislate for euro payments but also for 13 other local currencies in the EU, including sterling. It will establish a legal framework for SEPA and a harmonised method for payment transactions.

The greater transparency that will result promises benefits for consumers and corporates alike, Boden adds. However, in the interim period the "payments landscape is complex", she says, which means that companies will need to work closely with banks in navigating the next 18 months until the directive is introduced.

SO WHAT ARE THE BENEFITS? As the legal foundation for an EU-wide single market, the Payment Services Directive will change the rules governing the relationship between banks and their corporate clients for liability for loss, theft and misappropriation, unauthorised payment refund procedures, transparency in payment processing charges, credulity transfer obligations and execution timeframes, and value-dating terms and conditions for interest payments.

The plan is for domestic payments to migrate to a SEPA environment from 2010, although hopes that this process will be speedily accomplished may be disappointed. According to Nick Ford, Head of Supply Chain and Payments at Capgemini UK, a survey of 13 countries by the group found that while some countries were on course to achieve migration in 2010, others could take anything up to five more years.

This is despite the many benefits that will accrue to corporates' financial supply chains, he adds. SEPA should lead to:

- greater use of e-invoicing;
- more archiving of mandates;
- wider use of reporting and traceability tools;
- faster payment times; and
- improved risk management to counter fraud and money laundering.

32-34 cashman sepa jun08.qxd 22/5/08 12:22 pm Page 33

THE FIRST STAGE OF SEPA WAS INTRODUCED THIS YEAR. **GRAHAM BUCK** ASKS WHETHER THE PROMISED BENEFITS HAVE BEEN DELIVERED.

Companies are steadily becoming more aware of these benefits, adds Ford, who says that only a couple of years ago many were rather more cynical in their attitude towards SEPA.

But for SEPA to be wholly successful, not only big business has to be persuaded to migrate to the new environment. It also depends heavily on the support of the public sector, which provides large volumes of business and handles payment volumes, for achieving the necessary critical mass. Some authorities have also recognised the need to change, although others fear the danger of saddling Europe with a dual system, with old payments regimes running alongside SEPA for a prolonged period.

DIRECTIVE VERSUS LEADERSHIP Europe's corporate treasurers have a generally positive stance of SEPA, says Gary Wright, Managing Director of BISS Research, who last year worked on a couple of white papers on the initiative over the months leading up to last January's launch of Phase I.

Among its strengths, SEPA offers complete cost transparency to treasurers, giving them improved choice when carrying out payment transactions and it should also result in keener pricing.

However, BISS's research suggests that while treasurers recognise the potential benefits and are keen for them to be adopted, there is also widespread resentment that they have not been consulted by the banks, or invited to work with them in devising appropriate SEPA-compliant systems.

"As they were missed out at the consultation stage, the project has turned out to be a long way from what they were expecting," says Wright. "Banks have either not offered SEPA services or, when they have, a great deal of technical work has been required. This has included the need to join the Swift network."

BISS's research last autumn also found "a lot of unfinished design and implementation" that made it difficult to see how SEPA could achieve all its objectives.

Wright contrasts SEPA with the Year 2000 IT initiative of the late 1990s, which, he says, was a co-ordinated effort. Although planned

TREASURY, RISK AND FINANCE PROFESSIONALS

ACT

Essential Events and Conferences from the ACT

FX Breakfast Symposium

Demystifying and evaluating FX options
5 June 2008
Sponsored by HiFX
Corporates only

Find out what the FX Options market could do for your business and gain insight into the suitability and pricing and the accounting and risk implications.

ACT Annual Pensions Conference

One day conference, London
26 June 2008
Sponsored by Mercer Human Resource Consulting and RBS.

Keynote addresses from:

- **Partha Dasgupta**, CEO, Pension Protection Fund
- **Ian Mackintosh**, Chairman, Accounting Standards Board

This one-day event will provide an update on the latest changes in pensions and discuss the current market conditions.

Treasury Fundamentals Conference

A three-day residential summer school, Oxford
9-11 July 2008
Sponsored by BayernLB

Chaired by **Edward Krawitt, Global Strategies Group**, and **Gary Slawther, Speedy Hire**, the programme will feature instructive case studies, in-depth training, and interactive sessions to provide a comprehensive foundation to the role of treasury.

talkingtreasury Düsseldorf

The fifth in the thought leadership series
Exclusively for corporate treasurers
3 September 2008
Sponsored by RBS

Chaired by **Jochen Stich**, Senior Member of the VDT this event will focus on:

- The impact of the credit crisis on liquidity risk management and corporate funding strategies
- Strategic risk management
- The changing role of the treasurer

talkingtreasury Stockholm

The sixth in the thought leadership series
Exclusively for corporate treasurers
25 September 2008
Sponsored by RBS

Led by panels of treasury practitioners, this forum provides a platform to discuss treasury best practice and debate real issues facing the profession today. Full programme coming soon.

For all events and conferences, contact Jemma Harris at jharris@treasurers.org or phone +44 (0)20 7847 2589. Alternatively visit www.treasurers.org/events

32-34 cashman sepa jun08.qxd 22/5/08 12:22 pm Page 34

as a single EU initiative, SEPA lacks any central body or individual for consultation. With directives rather than strong leadership driving it, member countries are implementing the initiative at different speeds.

"EU commissioners don't really fully understand how the market works and regard SEPA more as a bank-to-bank issue, whereas it affects corporates and really needs their involvement," adds Wright.

Tony Richter, Senior Manager at HSBC Global Payments and Cash Management, says there has been a clear message from many corporate treasurers since January that they are disappointed SEPA hasn't improved straight-through processing. "However, the European Payments Council made it clear that it envisaged its role as being in the inter-bank space," he adds. "It did not address the corporate-to-bank space, though, and until this area receives similar attention it's unlikely that treasurers will regard SEPA as producing any major benefits."

HIGH EXPECTATIONS Another area where expectations were perhaps set too high is that of payment file formats, says Richter. There was a widely held impression that SEPA would result in a defined and uniform XML-based file format.

However, there is a longstanding barrier – one that the payments industry has grappled with for years – that the format is different for each and every country in Europe. Although this problem is far from new, the launch of SEPA has served to bring it to the fore.

To these obstacles can be added the fact that many multinationals simplified their own payments environment long before the advent of SEPA through banking and alliance partners and have been enjoying the cost benefits for several years.

Claims that SEPA will reduce their costs therefore cut little ice. If anything the initiative threatens to increase them, as unravelling these relationships in order to transfer to SEPA could prove a lengthy and expensive process.

To which RBS's Boden replies that for countries to hold on to their traditional instruments and formats merely makes Europe an expensive place in which to do business. Under the common instruments and formats proposed by SEPA, companies will require only a single set of tools and will be able to reduce the number of bank accounts that they need to hold.

WHILE TREASURERS RECOGNISE THE POTENTIAL BENEFITS OF SEPA, THERE IS ALSO WIDESPREAD RESENTMENT THAT THEY HAVE NOT BEEN CONSULTED BY THE BANKS, OR INVITED TO WORK WITH THEM IN DEVISING APPROPRIATE SEPA-COMPLIANT SYSTEMS.

Ford says that banks are aware that they need to make greater efforts to convince the major corporates that SEPA-type instruments will add value and have already done a lot of catch-up work over the past year to demonstrate their quality, price and value.

Although the European Association of Corporate Treasurers has carried out a great deal of educational work, companies and their corporate treasurers "have been crying out for this detail", which, at last, the banks are now providing.

While the SEPA initiative has the participation of all the major European banks, those in the second tier are understandably less enthusiastic. It will inevitably lead to consolidation in the payments industry and smaller banks stand to be the losers.

To date, the Brussels-based European Payments Council reports that about 4,000 banks in Europe, or around half of the region's total number, have signed up to SEPA, although the inclusion of the big players means the participants account for up to 80% of transactions. However, the Top 20 already account for around 40% to 45% of all payments, and the figure is expected to double over a relatively short period to 80%.

This means that the second-tier banks will have to ask some searching questions, says Richter, because the investment required in SEPA-compliant systems is substantial, yet the meagre returns on payments do not really justify such expenditure.

Consolidation is inevitable, as those banks that are not international players and also lack a niche presence are increasingly squeezed. Many will have to outsource their payments services to a larger competitor as a result.

THE ONUS IS ON THE BANKS There is also a perception by some companies that the threshold for complying with SEPA has been set too low and, as a result, a number of banks have done only what is necessary to meet compliance and fall significantly short of developing appropriate services for their clients.

Yet despite the various criticisms and a feeling that the project has yet to fully live up to expectations, there is optimism. "If you look at the objectives, SEPA promises to be enormously beneficial – once there has been some rejigging at the banking end and some small technical issues have been ironed out," suggests Wright.

And HSBC's Richter adds that discussions on SEPA payments and SEPA-compliant instruments quickly extend into the treasurers' other areas of responsibility and the company's potential both for cost savings and for moving into new areas of business.

The onus, it appears, is on the banks to step up their efforts to promote the full range of benefits to their clients.

Graham Buck is a Reporter on *The Treasurer*.
editor@treasurers.org