TIME IS RUNNING OUT

THE CLOCK IS TICKING FOR COMPANIES THAT HAVE YET TO BEGIN THEIR MIGRATION TO SEPA. MICHAEL TURNER OFFERS SOME KEY POINTERS TO GET YOUR COMPLIANCE PROJECT OFF THE GROUND

Compulsory migration to the SEPA direct debit (SDD) and SEPA credit transfer (SCT) schemes is now less than a year away. SEPA (the Single Euro Payments Area) is a regulatory initiative that will transform the payments landscape in two stages. Firstly, it will simplify bank transfers across the eurozone, and secondly, it will streamline payments more widely across the EU. Under SEPA, individuals and organisations will be able to make cashless euro payments using a single bank account and a single set of payment instruments consisting of credit transfers, direct debits and cards.

Although SEPA will have widespread ramifications for companies' technology platforms and payment and collection processes, as well as their employee payrolls, many have still not started their migration plans. A recent survey of 273 treasury professionals undertaken on behalf of Deutsche Bank revealed that more than half (52%) have yet to begin, and almost a quarter have yet to even investigate the issue – despite a considerable number of challenges, particularly with regard to the SDD scheme, that must be addressed.

SEPA direct debits

From 1 February 2014, all companies operating legacy direct debits in the eurozone will have to convert to the SDD scheme. This is a significant challenge since SEPA is effectively bringing together the direct debit systems of the different eurozone countries, each of which has its own local variations today. One of the major changes brought about by SEPA – and one that presents the greatest challenge for many corporates – is the new requirement to store (physically or electronically) direct debit mandates. A further, related challenge is the need to capture new data elements for direct debits, including creditor ID and mandate numbers. First-time submission requirements will also be a new consideration for many companies across the eurozone.

Such complexities mean that migration to the SDD scheme – and specifically mandate management – is corporates' greatest concern, and the area requiring the greatest attention. Unless companies use one bank for all their direct debits (which is unlikely, as it generally goes against operational risk policies) or they have a different mandate management system with each of their partner banks, they need to find another solution. And with the migration deadline looming, this alternative must be found quickly.

Potential solutions may include using a third-party vendor's mandate management system, asking a vendor to construct a bespoke system that the corporate in question then hosts internally, or building a proprietary system in-house. Despite the significant upfront costs – which would prove prohibitive for a number of corporates – this latter option may come into its own for large companies that have grown through acquisition.

Mandate management can be a particularly large problem for such organisations since it is often the case that the recently acquired business(es) will have individual enterprise resource planning (ERP) systems and different ways of handling direct debit mandates. The harmonisation of mandates through the building of an in-house system – though costly at the outset – can result in notable longer-term cost and efficiency gains for such companies.

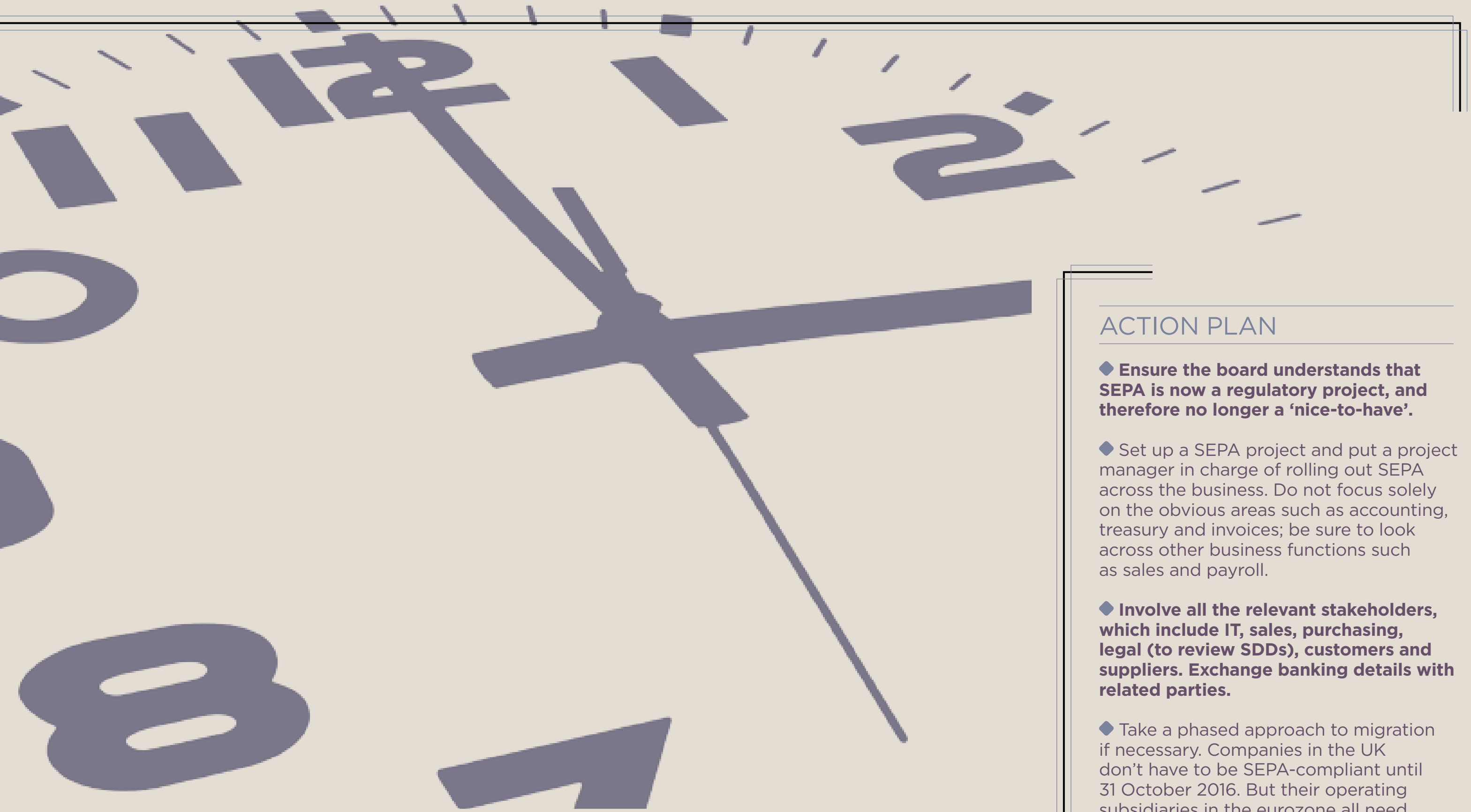
While the SDD scheme is proving to be the greatest compliance hurdle for most, some sectors, such as utilities, telecoms and insurance, are ahead of the curve. This is because they tend to have significant multi-country direct debit volumes, and failure to comply with SEPA would prove too great an operational and liquidity risk if they cannot collect funds via direct debit come February 2014.

SEPA credit transfers

Companies will also face compliance challenges, as they must meet the requirements of the SCT scheme. In this respect, migration should prove more straightforward than the move to the SDD scheme, as the SCT scheme comprises fewer data elements. However, concerns may arise if corporates have outsourced their payroll and are unsure if their provider is SEPA-compliant, or if they run payroll on an old, independent system incapable of producing files in ISO 20022 XML, which will be binding for the exchange of bulk transactions between corporates

THE ULTIMATE GUIDE TO SEPA

To find out more about SEPA, see *The Ultimate Guide to SEPA Migration*, produced by Deutsche Bank. It is available for download free of charge at: www.gtb.db.com/sepa



and banks. Issues could also exist for companies that have historically accepted account numbers in local format rather than IBAN format, which – along with BIC codes – is the sole account identifier permissible under SEPA. As a result, companies need to ensure that their front office systems will accept IBAN at the point of sale.

Undoubtedly, SEPA has far-reaching implications, and it is imperative that companies familiarise themselves with the rules and their impact, which will differ between companies depending on factors such as company structure.

Benefits of SEPA

While the move to SEPA has been slow-going, particularly before it became a regulatory requirement, there are many benefits to be gained from migration. Companies, therefore, must not allow short-term compliance challenges to taint their view of the longer-term advantages.

One of the major benefits of SEPA is that it will enable corporates to optimise and standardise processes by using one file format instead of up to 17. This will facilitate access and growth into new markets by eliminating the need to adopt a new format and means of bank communication, as the process will already be in place. SEPA will also enable companies to centralise their bank accounts, thereby substantially reducing the number of accounts that they hold. This will make their cash more accessible and could, in time, render their euro cash pools obsolete.

Of course, those companies that plan to set up central payment or collection factories, or, in fact, have already done so, will reap the benefits of SEPA. This is because they can use one format across all the countries in which they operate. In addition, SEPA will reduce float and therefore the banking fees associated with it in certain countries. Corporates can ultimately expect to enjoy reduced bank fees across Europe in the short term, since higher-priced markets will come under pressure to reduce their fees.

If you have yet to take action on SEPA, there is no time to lose. Come February 2014, your company would not want to find itself unable to pay suppliers and employees, or collect payments. Speak to your bank, appoint a project team and put a plan of action in place.

While SEPA might be a regulatory requirement, it is also an excellent opportunity for your company to transform its systems and processes for the better.

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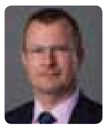
ACTION PLAN

- **Ensure the board understands that SEPA is now a regulatory project, and therefore no longer a 'nice-to-have'.**
- Set up a SEPA project and put a project manager in charge of rolling out SEPA across the business. Do not focus solely on the obvious areas such as accounting, treasury and invoices; be sure to look across other business functions such as sales and payroll.
- **Involve all the relevant stakeholders, which include IT, sales, purchasing, legal (to review SDDs), customers and suppliers. Exchange banking details with related parties.**
- Take a phased approach to migration if necessary. Companies in the UK don't have to be SEPA-compliant until 31 October 2016. But their operating subsidiaries in the eurozone all need to be compliant by 1 February 2014.
- **Speak to your ERP system provider. Establish whether there are front office systems that need to cater for IBAN going forward. Ensure that all the systems are ready to create the designated SEPA formats.**
- Arrange for the project team to coordinate training across the organisation.
- **If your bank hasn't already spoken to you about SEPA, do not hesitate to open the dialogue. Your bank should have the knowledge for you to draw on and be able to provide training and advice.**
- Keep a close eye on subsidiaries, particularly where variances of direct debit instruments exist, to ensure the correct instruments are migrated under SEPA.
- **Review your company's bank delivery channel. In theory, the delivery process under SEPA will be the same as before: it is only the file type that will change. SEPA migration presents companies with the opportunity, for example, to adopt SWIFT for Corporates.**
- Carry out comprehensive testing prior to the SEPA migration end date to iron out potential issues in advance of go-live.



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