STEPPING STONE

HOW CAN YOU USE SEPA TO DELIVER VALUE TO YOUR BUSINESS? TINO KAM AND VIOLETA NEGRUTA INVESTIGATE

It has been more than 13 years since the vision for a Single Euro Payments Area (SEPA) was first laid out by EU governments. Implementation is now set for 1 February 2014, but there is a danger that corporates may have left preparations to the last minute, which means they are not sufficiently focused on the openings this change can bring. Rather than seeing SEPA as a forced migration project or a matter of compliance, corporates need to look beyond the regulatory requirements and prepare for opportunity. SEPA promotes greater enterprise-wide efficiency because it removes national exceptions in cash management processes across the continent.

Similarly, SEPA and its designated format for transactions – the ISO 20022 XML message standard – present an opportunity to optimise working capital and improve corporates' cash conversion cycle through extended remittance and beneficiary information fields. This supports end-to-end customer information, to ensure straight-through processing (STP) and prompt reconciliation.

As well as investing in the implementation of the XML standard for payments, a company should also consider other areas in the financial and supply chain where the new technology can be applied by replacing paper-based procedures with standardised electronic solutions, such as e-mandates and e-invoicing. This will change the payment value chain as we know it.

First steps towards single account structure: SEPA

For UK corporates, SEPA provides access to the entire European market, making it easier to transact through a single standard, service level and a legal framework. So rather than implementing various domestic electronic payment types, corporates only have to interact with one single payment infrastructure in Europe. This will break down the barrier to extending into new markets.

All organisations need to look at centralisation from a strategic perspective to enable the use of a single euro account for their vendor payments, which will rationalise not only the payments, but also the cash management structures. SEPA provides an opportunity for corporates to reassess and refine their operations from a cost, compliance and control perspective.

SEPA can reduce a company's costs through the standardisation and harmonisation of payment instruments. It can also enable further optimisation of the treasury cash management structure. By reducing the number of accounts, streamlining banking relationships and enabling the implementation of payment and collection factories, plus for more sophisticated multinational corporates, further integration of payment factories in in-house banking – SEPA can act as the catalyst for robust change.

Greater efficiencies

Beyond the need to meet the SEPA regulation, there are also opportunities to improve business efficiency and visibility. Standardising payment instruments will increase efficiency throughout the cash management and other processes such as SEPA direct debit will enable corporates to rationalise and support the drive to centralise their bank accounts. This will reduce the cost of European transactions while also improving cash flow visibility and management.

With standardised formats, there is also potential to increase automation, improve reconciliation and reduce the instance of errors. In these ways, SEPA has the potential to create stronger and more efficient businesses, enabling companies to operate more effectively.

Migrating to SEPA can also be an opportunity for treasurers to reassess their current cash management processes. Improving visibility by reducing the number of bank accounts required means that treasuries are more aware of their liquidity capabilities. The financial crisis highlighted the importance of knowing where cash is held and being able to access it.

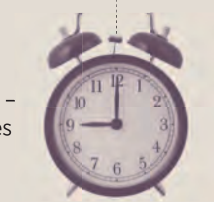
The best practice examples are companies that were early adopters and were quick to see the benefits of SEPA beyond the regulatory ramifications. They have streamlined operations for greater visibility and less operational risk.

Creating a global standard

Another regulatory requirement of SEPA that continues to offer benefits for businesses in the future is the ISO 20022 XML message standard. UK corporates need to seek out banking relationships where they can get assistance with their XML implementation in a way that can set them up to grasp the future opportunities of the standard.

SEPA promotes greater enterprise-wide efficiency because it removes national exceptions in business processes.

There has been a move towards XML standards in Asia, too, so XML is not just about Europe; it is in fact a global standard. Other regions are also following the trend and RBS is supporting corporates across the world in their use of XML. This standard can be applied to workflow solutions, such as electronic bank account management (eBAM) e-invoicing, letter of credit confirmations and FX confirmations – streamlining processes for greater operational efficiency. Being a non-proprietary solution, it is the ideal way for multinationals to standardise their file formats with their banks.



THE COUNTDOWN TO COMPLIANCE

Here are some of the key milestones for SEPA compliance:

2008 **The introduction of SEPA credit transfer**

2009 **The introduction of SEPA direct debit**

2011 **SEPA payments replace national payments in the eurozone**

2014 **By 1 February, the euro area must be SEPA-compliant**

2016 **By 31 October, non-euro areas must be SEPA-compliant**

As of these final deadlines, existing national euro credit transfer and direct debit schemes will be replaced.

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Making a plan B

Most UK corporates will be well into their SEPA migration plans, but those that are not will require to have a back-up plan. Therefore, they will need to find the right banking counterparty in Europe to support them with their conversion services to make a set of payments. Options for settling euro payments could involve invoicing rather than direct debits, or working with a banking partner to help accelerate the implementation.

Despite the long lead-up to SEPA compliance, many corporates may not be ready in time. A recent report from PwC[1] indicates that one in three companies are at risk of failing to meet compliance. The worst-case scenario is if a corporate is not compliant by 1 February 2014. Failure to comply by this deadline will have an impact on its cash flow and may cause operational risk and business disruptions on the supplier side and/or the customer side, leading to a lot of dissatisfaction on both sides of the commercial value chain.

A consequence of non-compliance is the great increase in operational and transaction costs, due to the number of rejected payments or direct debits, and the need to use alternative payment methods such as international wire payment.

Next steps

For the majority of businesses that are SEPA-ready, the next step is to think beyond the regulation and be smart in the way you use SEPA to create value for your business. Start planning beyond February 2014 to leverage the investments your company has made in SEPA migration and ISO 20022 XML adoption. Use SEPA to further drive payments and receivables centralisation, optimise your financial and commercial processes and see it as a stepping stone to more efficient treasury operations.

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1 SEPA READINESS THERMOMETER AUGUST 2013 UPDATE – PREPARE A PLAN B, PWC