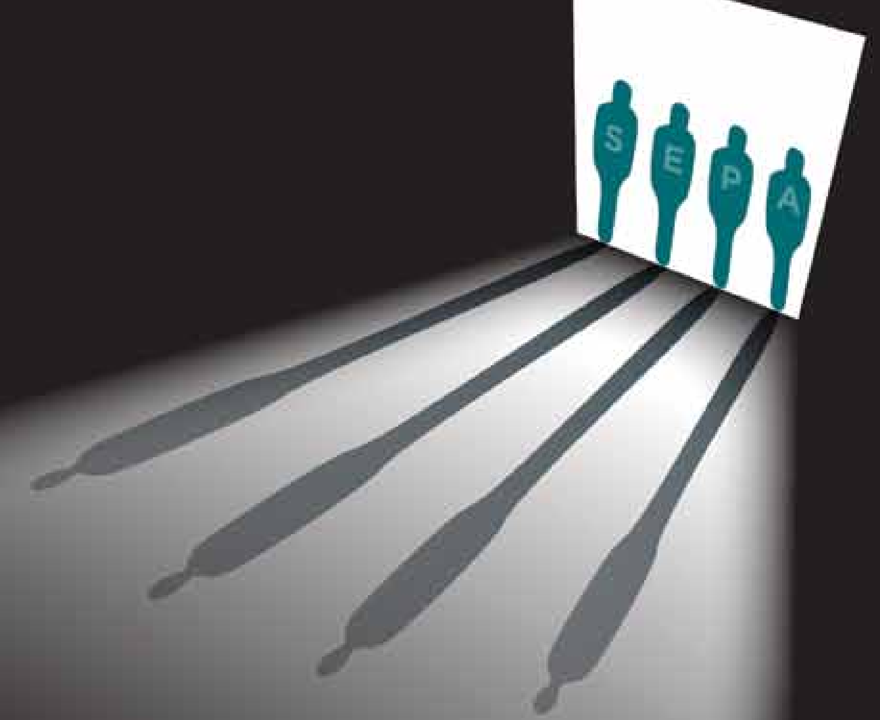

Coming to get you...

Is migration to SEPA a regulatory burden or a strategic opportunity? Lesley Meall reports

Time is running out. It remains to be seen if this is as true of the eurozone as it is of the deadline for the Single Euro Payments Area (SEPA). But now that a legally binding SEPA implementation deadline has been set as 1 February 2014, many European organisations (see box, right) will need to focus on their SEPA migration projects – and the associated technology. "Banks, businesses and public authorities will have to invest heavily between 2012 and 2014 to upgrade software, revise internal procedures and migrate both customers and suppliers from national payment schemes to SEPA," says Leo Lipis, associate analyst at CEB TowerGroup.

But this is not all bad news.

"Corporate treasurers have long desired a pan-European standard for corporate-to-bank communication," asserts Lipis, and SEPA migration can deliver standardised formats for payments, plus benefits such as centralised and optimised processes, enhanced working capital and fewer instances of payments, enterprise resource planning (ERP) and other software. In theory, harmonised payment execution could also enable treasurers to handle all European-based transactions from a single bank account – if this didn't increase counterparty risk and if it were legal to pay local taxes from overseas bank accounts in all eurozone countries, which it is not (yet).

Payments should become easier and faster, and costs should fall, as an EU regulation states that cross-border SEPA payments must cost no more than a national transfer. But these and other benefits do not automatically go hand in hand with migration to SEPA and the gap between now and the 2014 deadline does not leave much wriggle room for those that have yet to start their preparations.

"Corporates face huge changes and many are probably unaware of the impact SEPA will have on their organisation," says Marco Bosma, financial logistics director, Rabobank, the Netherlands.

So, where do you begin? Well, this depends on a number of factors, not least the approach being taken to SEPA. Some corporates are trying to minimise migration (along with the upfront costs and disruption to existing business processes) by opting to use the SEPA file conversion and related services being provided by banks, software providers and other vendors; some corporates are taking the wider opportunity SEPA offers to centralise, streamline and standardise processes and information flows. Budgetary constraints, the structure of the operation and the complexity of its payment processes, are also factors, as is the software and services you are using (or plan to use) and their SEPA readiness.

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Many off-the-shelf and proprietary systems can fall under the octopus-shaped shadow cast by SEPA. The most obvious are the software applications and services used for treasury, in-house cash and liquidity, bank communication, payroll, customer relationship management (CRM) and the back office accounting and ERP systems where accounts payable and accounts receivable modules typically create payment files. But point-of-sale and many other customer-facing (and often industry-specific) systems may need to be considered; likewise, data warehouses and shared services, which may be inside or outside the enterprise, in private or in public clouds.

Consequently, planning your approach to SEPA will demand a cross-functional team of people from treasury and accounting, the legal and IT departments, and you may want to include external vendors and third-party providers, too. Some software already supports SEPA and the required XML formats, some does not, and SEPA support approaches vary between vendors – as do their timescales for compliance. "Treasurers and finance managers need to engage with their banks and technology vendors and factor their compliance timescales into their project preparations and risk analysis," suggests Frank Taal, global head, product management payments, ING.

Treasurers should also be aware of SEPA format requirements and any related system adjustments. Corporates need to be able to send SEPA-compatible credit transfer (SCT) and direct debit (SDD) transactions to their banks using XML (see box, right) and settlement instructions must include the international bank account number (IBAN) and bank identifier codes (BIC) though the latter will eventually disappear. "This creates a number of technical challenges," says John Dente, technical director of IT managed services at PTS Consulting, such as ensuring that customer and supplier records include accurate BIC and IBAN numbers, a process he describes as "a data administration exercise" – and banks and other vendors are offering file conversion and other related services.

Rabobank, for example, is offering its clients an online (software as a service) platform (in collaboration with the technology service provider Logica) that will help the bank's clients to meet the SEPA requirements 'without impacting on the continuity of their business'. It will convert payment instructions to the IBAN/BIC standard, provide mandate services to support the SDD process, and act as a payment hub for all incoming and outgoing SEPA transactions. In the short term, services such as this will be a boon (if not a necessity) for organisations that would not otherwise be SEPA-ready – or have chosen to minimise their migration efforts.

Corporates with more extensive SEPA migration plans face more extensive technology challenges, particularly with SDDs, because of the very many variables to be considered. Processing cycles, data requirements and validation to mandate management can all make consolidation into a single processing standard difficult – then there are the differences in country-specific migration plans. In Finland all domestic credit transfers are already SCT and it is working towards the 2014 deadline for SDD. Germany, meanwhile, will retain the Elektronisches Lastschriftverfahren (ELV; electronic direct debit) and the use of national account numbers and domestic sort codes until 1 February 2016.

ISO 20022 allows for variations in XML messages, which can also create complexity. Take additional optional services (AOS). These can be used by local, national and pan-European communities of banks to support legacy products, by extending standard (core) SEPA messages with additional (non-core) information. AOS also allow banks to create complementary services based on SEPA. "AOS means extra data fields in the XML messages, and it will only take one country adding AOS to half a dozen schemes for it to take the complexity off the scale," says Bob Lyddon, who heads Lyddon Consulting, a provider of training and consulting for SEPA.

As countries, communities and companies have not yet made available all the information needed for treasurers to make a fully informed decision about what to migrate and when, and 2014 is rapidly approaching, what are the options for those who want to minimise the disruption of SEPA and/or maximise the benefits? A phased approach may be the order of the day. "You need to have your infrastructure ready by 2013, so that you can spend the next year linking your templates with all of the fields in your back office systems," says Lyddon, "though it doesn't leave much time for testing."

Or you could always take the conversion route to compliance in year one and then explore the wider benefits of SEPA some other time.

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THE ABCD OF SEPA

The Single Euro Payments Area (SEPA) will affect all companies doing business with partners in the eurozone and sending or collecting payments in euros.

SEPA aims to simplify and harmonise euro bank transfers across the 27 EU member states, plus Iceland, Liechtenstein, Monaco, Norway and Switzerland.

Numerous national payment schemes will (eventually) be replaced by a single unified scheme that uses the pan-European payment instruments:
- **SEPA credit transfer (SCT) – used by debtors to initiate payments; and**
- **SEPA direct debit (SDD) – initiated by creditors to collect outstanding receivables.**

SCT was introduced back in 2008 and is already being provided by many banks and used by many corporates – around 27% of credit transfers are now SEPA-compliant.

SDD arrived later and uptake has been significantly lower: less than 1% – for reasons including (but not limited to) variations in direct debit processing across eurozone countries.

SCT and SDD are based on standards in the ISO 20022 Universal financial industry message scheme (UNIFI) and defined as eXtensible Markup Language (XML) formats and payments initiation (PAIN) messages. Cash management messages define XML account statements for corporate to bank communication.

Banks will provide customers with SCT and SDD payment instruments plus related services such as file conversion (which are also being offered by other vendors).

Corporates must check with banks and software vendors about their SEPA and XML compliance timescales and factor this into their planning and risk analysis.

The scope of corporate projects will reflect whether SEPA is seen as a compliance-only exercise or an opportunity to deliver additional benefits (aka SEPA+).