The clock is ticking

WITH SEPA MIGRATION LESS THAN 18 MONTHS AWAY, ERIC MUELLER EXAMINES THE IMPLICATIONS FOR TREASURERS AND THEIR BANKS

The march towards the Single European Payments Area (SEPA) continues despite ongoing public debt and budget challenges in the eurozone. Earlier this year, the European parliament adopted a legally binding migration date of 1 February 2014 for SEPA, which will replace the legacy domestic automated clearing house (ACH) systems for payments and direct debits in eurozone countries. And the potential departure of one or more of the current constituents of the eurozone is unlikely to change this: SEPA is seen as a cornerstone of the single currency and a means of creating a more integrated Europe.

To a certain extent, both banks and corporates are prepared for SEPA migration. SEPA has now been live for a couple of years and many banks offer basic SEPA services, such as standard credit transfers. But while nearly every bank is either directly or indirectly ready to receive SEPA payments or be debited with SEPA direct debits, only a few can offer a comprehensive SEPA package. This includes the full range of SEPA transaction types, such as SEPA direct debits (B2B and B2C) with detailed reporting for returned items, and value-added services, such as reconciliation solutions for SEPA payment and integrated collections on behalf of group entities. While banks that are big players in euro clearing have made a substantial investment in SEPA, other banks will simply buy payment and/or direct debit services from the euro clearers and offer those to their corporate clients indirectly.

With SEPA migration less than 18 months away, corporates have no time to lose. It's a mandatory project that will require significant budget – people and IT – to implement. Some corporates already use SEPA for cross-border payments, but almost all have neither migrated their legacy local ACH payments to SEPA nor migrated their local direct debit collections to SEPA direct debit. The reasons for this include the limited financial benefit for migrating ACH payments, higher transaction fees for direct debits and unresolved issues around the migration of direct debit mandate instructions.

Over the coming months, corporates need to review their purchase-to-pay and order-to-cash processes and systems to ensure they are ready for migration to SEPA. They can follow a standard migration, which adjusts existing processes, or they can opt for a fully integrated migration that includes an in-house bank,

GLOBAL NETWORK BANKING – RECENT TRENDS

Multinational corporates expect global network banks to have dedicated teams on the ground to serve their local subsidiaries and regional treasury centres around the world. These dedicated teams offer a full range of local corporate services such as cash management, trade finance and FX, just like a local bank. The local systems are fully integrated into a global reporting, liquidity, payment and collection management solution. The teams understand the bank's global relationship with the corporate at head office level and they apply agreements made at head office level across the globe. They also share information almost in real time on local challenges and opportunities that face the client globally.

In recent months, there has been a noticeable 'flight to quality' at corporate subsidiary level, particularly in southern and Eastern Europe, with global banks winning new business on a daily basis. Multinational corporates are increasingly concerned about dealing with local banks that may be struggling, for example, in Spain, Portugal, Italy or Hungary. Global banks are also picking up market share in the emerging markets. Corporates are investing heavily in places such as Turkey, Russia, Brazil, China, India and the Middle East, which are major growth areas for banks.

When choosing a global network bank, there are a number of important factors to consider. These include:

- **A good track record and commitment to global transaction banking;**
- **The bank's position in the euro clearing business;**
- **Whether the bank offers euro cash management services;**
- **What strategy the bank has for SEPA (will it offer a fully integrated service or will it sell on services from another banking provider?);**
- **The investment plan that the bank puts forward and whether this meets the objectives of the corporate;**
- **The bank's credit rating and how this compares with other banks;**
- **Whether the bank has a sustainable global business model (what is its market share likely to be in five years' time?); and**
- **The strength of the bank's historic relationship with the company.**

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payment on behalf, collections on behalf and central account structures. I recommend they do the latter to fully benefit from SEPA.

Corporates also need to question their cash management set-up in euros. Does it still make sense to work with one bank per country in Europe for cash management purposes going forward? SEPA is a regional ACH system, so why not use a regional SEPA provider, ie one bank for SEPA, or even one bank for Europe?

Migration to SEPA is likely to transform the European corporate banking landscape. Over the next two to three years, there will be massive movement of payment and collection business from local banks to established regional cash management banks that have invested heavily in SEPA and can provide integrated and value-added SEPA services that combine non-SEPA and SEPA transactions. All banks will lose out on fee income from ACH payment and collection due to SEPA, which is making them question their business models for corporate cash management services. There will be increased financial pressure on banks, which are already feeling the strain from falling profits and new capital rules under Basel III. As a result, I believe that in five years' time, a few regional cash management banks, including Deutsche Bank, will represent approximately 80% of the total SEPA volume.

Corporates will benefit from reduced banking costs thanks to SEPA. But the migration is also a good opportunity for treasurers to redesign their company's cash management set-up to make it more efficient. They should consider moving away from a one-bank-per-country approach with its many disadvantages, including SWIFT connection with several banks; a wide assortment of documentation and files; numerous bank contacts across the region; a host of different forms for payments and collections; inefficient liquidity management; and varying local payment and collection reconciliation processes. Adopting one bank for SEPA or for Europe does bring with it heightened counterparty risk, but corporates can mitigate that risk by selecting a strong financial bank as their partner. And by taking a standardised approach regionally (for example, using one paper payment and collection file), they can easily move to another bank, as long as it is a regional bank.

The turmoil in the eurozone might be muddying the picture just now, but the point of no return for SEPA was reached some years ago. Migration is inevitable. By 2014, the leading European cash management banks will be ready in all eurozone countries where they have a local branch or affiliate. And given that many local players will buy services from these regional banks, SEPA will be generally available throughout the region. So if your company is ill-prepared for the migration, it is time to act – SEPA is here to stay.

For more on SEPA, see A catalyst for change, page 40

SEPA CHECKLIST – SOME KEY CONSIDERATIONS

1. **Put together a project team that is responsible for overseeing the SEPA implementation (if you haven't already done so) and allocate sufficient people and IT resources/budget.**
2. **Carry out a high-level analysis of the work involved.**
3. **Analyse your corporate's cash management set-up across Europe and assess the quality and quantity of your banking relationships.**
4. **Assess the SEPA capabilities of your banking providers.**
5. **Decide whether to centralise payments and collections.**
6. **Decide whether to migrate each country individually or migrate them all at once (and when you will migrate them).**
7. **Decide whether to switch payment formats to Extensible Markup Language (XML) now, or continue to rely on bank conversion services.**
8. **Contact counterparties for their IBANs and BICs.**
9. **Communicate your own IBANs and BICs to counterparties.**
10. **Update all systems that contain account numbers and bank codes, to accommodate IBANs and BICs.**
11. **For a comprehensive checklist, please refer to the DB SEPA Compendium, available through your Relationship Manager.**

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