Europe thrown open

EUROPE'S SCHEME TO CREATE A SINGLE WAY TO MANAGE DIRECT DEBIT PAYMENTS IS REVOLUTIONISING BUSINESS ACROSS 32 COUNTRIES. **JOHN SALTER** EXPLAINS WHY HE'S SO EXCITED.

It may have a clumsy name, and it might not yet boast much of a media profile, but, for me, the Single Euro Payments Area Direct Debit schemes (SEPA DD) are ushering in nothing short of a revolution for businesses in Europe. It's opening up operational and liquidity opportunities that until now have been the preserve of only the very biggest corporates.

Launched in 2009, SEPA DD has, in one sense, become almost the elephant in the room. We all know it's there, but practical awareness of its huge potential has been overshadowed by the urgent diversions of the financial crisis and the recession. Now, however, the November 2010 regulation makes it clear that we're nearing a point of mandatory implementation – most people guess it will be around 2014 – when there will be no escape.

The schemes create a single, convenient and efficient way to accept and make direct debit payments across 32 European countries. SEPA DD is now developing very rapidly, led by demand in each euro market. What's exciting is the way it immediately opens the way to transparent prices, faster settlements and simplified processing.

It's not just easing the conduct of business across European markets; to my mind it's absolutely transforming it. We're going from direct debit protocols unique to each euro country to a regime that has one look and feel for every country. It's a breathtaking development.

Think for a moment of what this scheme replaces. Previously, it was really only the very largest multimarket giants with huge direct debit transaction volumes that could leverage the greatest operational economies by aligning themselves with global banks that have significant geographic branch footprints.

Now everyone can secure the same operational benefits by working through their domestic banking partner. By implementing the basic, egalitarian, open access SEPA principles, non-global businesses and their domestic banks can now access Europe just as competitively as the global players can.

By harmonising methods and prices across the SEPA community, the scheme means that any UK company can now organise all euro payments from a single domestic bank account, improving money management and cashflow control. It can be used for single or recurrent direct debit collection. And it makes it much easier to repatriate funds to the UK.

The implications are profound – and, let's be honest, not universally positive. For the numerically small community of global giants and huge domestic utilities, for instance, which are already collecting tens of millions of direct debits with their own sophisticated systems, the cost consequences are very large, and the assessment of payback tricky and uncertain.

The early and accelerated adoption of e-mandating would meet some of their remandating challenges. But there's likely to be a significant and unavoidable cost to reconfigure the automated enterprise resource planning (ERP) systems in which the very biggest domestic and cross-border direct debit users have already sunk large historic investments. There's no way for them to dodge that cost bullet being fired with the new scheme.

But then SEPA was never designed to benefit those few. On the contrary, it was designed, in my view, to benefit the very

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much larger population of companies across Europe that want to trade internationally and currently don't have an efficient mechanism to do so. SEPA DD delivers it.

For this community – and I'm talking of the vast majority of Europe's hundreds of thousands of businesses – the opportunities are immensely attractive. The core SEPA principle, after all, is to increase competition and allow free access to European markets to all.

Experience shows that a lot of these companies handle direct debits already, but don't necessarily do so all that well. Many of their processes are still manual, so the automated opportunities for process and cashflow streamlining inherent in adopting SEPA DD are considerable.

For this corporate majority the payback will depend on how clunky their technology architecture is right now. The systems gurus love to talk of SEPA's 140-character advantages over, say, the 18-character BACS configuration, but the beauty of SEPA isn't just skin-deep. Its real value is in the extended number of fields it offers to create transactional reference information unique to both ends of the trade.

Its multiple fields mean it's now possible to streamline the processes of both supplier and buyer, a benefit that's traditionally been mostly accessible only to the buyer. So it's a one-time conversion that speeds up cashflow, helps deal with delinquencies, and makes the whole act of doing business so much more efficient. And the flipside is that it also provides companies with a platform from which to grow top-line revenue by taking on new clients.

Lloyds Bank Corporate Markets is committed to helping pioneer SEPA DD. In the six months to March this year alone, we've seen a 75% growth in our core volumes for SEPA DD.

For clients, there are considerable spin-off benefits such as a big repatriation opportunity: money is no longer effectively trapped in the national arena where it was earned but can now be "brought home" cheaply (no more cross-border fees to pay) and more efficiently (it can be cleared into one bank account in, say, a couple of days).

Conversely, there's an investment advantage, too. The euro zone may be the UK's major trading partner, but one of the limiting factors for those trading in Europe is that it's often been difficult reinvesting cashflow in local stock and inventory abroad. With SEPA DD, there's a low-cost way for companies to scale up their businesses – they'll now have liquidity to self-invest locally.

What's certain is that, as mandatory intermediaries in the SEPA DD process, banks themselves are being offered an enhanced role as business advisers. Demystifying Europe is certainly where we're getting most traction with our customers at Lloyds Banking Group.

A lot of companies are still quite nervous about Europe precisely because of what currently confronts them in trading there – the requirement for multiple bank accounts in multiple jurisdictions, the use of different domestic schemes all with a variety of cut-off times, file formats, guarantee value dates and distinctive repudiation dates. Naturally, companies are intensely uncomfortable about these heavy infrastructure costs of monitoring and managing their risks.

It seems to me that they've been almost literally knitting with a fog of documentation to make any headway in individual European markets at all. SEPA DD blows that fog away. Today, you can have one bank account in one location using one data format with the same guaranteed value dating and common repudiation cut-off times across every market.

Now, businesses get certainty of value every time. Even more important, they get maximum straight-through processing by working with those single, unique transaction references. The ability to treat Europe as one trading country is no longer an illusion.

And, as SEPA DD volumes grow, the banking sector's relationship-building opportunities are obvious: businesses suddenly have larger euro balances coming in, for example, and (for a bank like ours with some 60% of our currency business already euro-denominated) that's bound to reshape the sensible conversations we're having with customers about practical risk mitigation, investment and saving strategies, paying down debt or making acquisitions. It naturally gets us working even closer with our clients.

We believe, incidentally, that this might also prove to be a catalyst for a switch of banking partners. Larger corporates typically review their banking partners on average every three years. It is likely that more and more companies, seeing the opportunities generated by SEPA DD, will absorb the initial development costs anyway within their "business as usual" costs of rebanking.

And the delight is that it's such a simple thing to grasp and implement. What has amazed us, in fact, is that most of the conversations we're having with clients are along the lines of: "You're kidding! Is it really that straightforward?" Our clients don't immediately believe it – and not because it's so complex, but for precisely the opposite reason, because it's all so straightforward.

The basic point is that SEPA DD naturally supports growth in Europe. The operational and liquidity benefits are really the two big upsides: they present non-global corporates with a real opportunity to leverage Europe. Two years ago, all of this seemed almost impossible. That's what's so exciting. It's a great story.

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