Proceeding with caution

RESEARCH INTO THE WAY THAT CORPORATES AND BANKS ARE RESPONDING TO THE SEPA CHALLENGE SUGGESTS THAT THERE IS STILL SOME WAY TO GO. **PETER WILLIAMS** REPORTS.

Executive summary

The Single Euro Payment Area is being taken up only slowly by corporate treasurers, due to fears over the system's perceived vulnerability to direct debit fraud. Yet despite this awareness, few businesses are enhancing their counter fraud measures. Two new pieces of research reveal the low level of response to SEPA and show that the corporates want more help from the banks to tackle the issues.

Corporate treasurers are worried about the possibility of direct debit fraud as a result of the introduction of the Single Euro Payment Area (SEPA). At the same time it has emerged that companies are only slowly adopting new processes and formats to comply with the SEPA.

Two surveys conducted among corporates have shown that much work remains to be done until SEPA is fully operational and accepted. A survey by Dresdner Kleinwort in May 2008 among companies with a turnover of over €50m found they had been very slow to adopt the new processes and formats. Only around 4% said that they had adopted SEPA and the new processes for both their incoming and outgoing payments. Most – around two-thirds – are not yet using SEPA at all.

THE SHORT AND THE LONG TERM However the bank is convinced that in the long-term SEPA will establish itself as the norm. Manfred Fleckenstein, head of global cash management at Dresdner Kleinwort, said: "Once its full functionality is in place, companies will find they can use SEPA to consolidate their payments transaction accounts in Europe, make their liquidity planning more efficient and so optimise the whole of their cash management."

But before that stage is reached, the bank survey found that the companies which are taking longer to make the transition are mostly those with a global reach or whose activities are mainly domestic, with less than 10,000 payment transactions a year or a turnover of under €100m. These businesses believe that the costs are not justified by the gains.

Fleckenstein said: "We find many clients are understandably hesitant – for them the advantages of the new process offers are not yet sufficiently clear."

He believed it was therefore not enough just to keep pushing home the message to companies that banks are able to offer SEPA at a reasonable price.

Just over 20% of businesses were considering implementing the new formats and processes within the next six months. According to the research, half planned to go over to SEPA only when it becomes a legal requirement. The research shows that many companies have found the price of SEPA transactions is not yet a strong enough reason to take on the cost of adapting their internal IT systems and treasury processes.

Many companies which collect their receivables using direct debits were also unable to make plans because the standards for the changeover to the new direct debit mandates had not yet been finalised.

LET COMPANIES DECIDE Yet despite this slow start, over two thirds of businesses recognised in principle the long-

term advantages that a single payment area offers. In the case of those actively using SEPA, that figure stood at over 85%.

Fleckenstein said: “There is no point in pressuring companies – far better to let them decide for themselves on financial grounds when the time has come for them to undertake the changeover.” He added that it was too early to set a deadline for abolition of existing processes. “Once the outstanding issues over the SEPA direct debit have been resolved, the system will soon gain momentum and widespread acceptance.”

CONCERN OVER DIRECT DEBITS It was the issue of direct debits that was the focus of the survey by Experian Payments, formerly Eiger Systems. Its research found that 98% of companies questioned do not plan to enhance payment fraud counter measures following the introduction of SEPA. However, Experian says that it is widely acknowledged within the financial services community that SEPA will bring associated security risks if the right systems and procedures are not put in place.

The survey, which questioned 43 mid-to-large size companies across the insurance, utilities and telecoms sector in the UK, also revealed that the majority – 86% – has yet to make an assessment as to whether SEPA will introduce an increased risk of payment fraud despite the first part of the framework going live earlier this year.

Of those companies which have completed an assessment, 20% of utilities and 15% of insurers believe that there is a “small” to “no risk” of payment fraud associated with SEPA. This goes against the banking community’s own conclusions.

What makes the findings more worrying, according to Experian, is the fact that direct debits and internet banking – two of the payment instruments affected by SEPA – already attracts payment fraud across the three industries, according to the research. If corporates do not have the right security procedures in place once SEPA is fully live, they could be exposing themselves to an increased risk of fraud through the SEPA instruments.

MORE HELP REQUIRED The survey also found that corporates unanimously agree that their banks could do more to help them in the fight against payment fraud. According to 91% of respondents, banks need to educate retail customers further on fraud issues, while 86% agree that banks should flag those accounts liable to be used for fraud. Furthermore, 79% think that the banks should publish levels of fraud prevailing in particular industries. The utilities sector was particularly keen on that, with 93% agreeing it was a good idea. Nearly three quarters of corporates also want the banks to offer insurance against fraud.

Jonathan Williams, Director of Communications and Product Strategy at Experian Payments, comments: “While financial institutions are now broadly aware of the security risks associated with SEPA, the survey has shown that there is a steep learning curve for the UK’s corporates. What started out as an initiative aimed primarily at consumers and corporates has become an initiative owned and driven largely by the banking community. As a result, the onus is now on the banks to educate their corporate customers on SEPA.

ONE OF THE BIGGEST PAYMENT FRAUD CHALLENGES FACED BY CORPORATES IS THE ABILITY TO LINK BANK ACCOUNTS TO INDIVIDUALS’ IDENTITY INFORMATION, WHICH WAS A PROBLEM HIGHLIGHTED BY 37% OF COMPANIES QUESTIONED

“The findings also point to the fact that banks need to work more closely with their customers to help them in the fight against payment fraud. One of the biggest payment fraud challenges faced by corporates is the ability to link bank accounts to individuals’ identity information, which was a problem highlighted by 37% of companies questioned. Banks need to share their expertise and work more closely with their corporate customers to help them overcome these challenges.”

KEEN TO LEARN It seems corporates are keen to learn more about SEPA and payment fraud. At Payment Strategies, Experian Payments’ annual payments industry event, discussions focused on the regulatory, technological and business changes taking place in the payments environment and considering how corporates can best address these challenges.

During the event, 180 corporates were asked their opinion of the SEPA framework and migration to the SEPA instruments, the challenges corporate treasurers face in the coming 12 months and their main fraud concerns.

If corporates are still questioning aspects of SEPA, so are the banks. A report examining SEPA by research and consulting firm Celent says that most European banks still strongly suspect that SEPA will negatively affect their revenue. Celent says that there is a general consensus that a real uptake to full-scale SEPA implementation will only follow after a clear definition of the migrations schedules from each of the 31 EU countries involved. The responsibility falls on the shoulders of the EU regulators and local policymakers.

On the other hand, says Celent, banks and corporations would be better off deciding on a strategy for SEPA. If they want to reap the benefits of the incumbent payment schemes introduced by the SEPA rulebooks, they need to proactively approach the market with innovative products and services.

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