

# Getting it right



**MICHAEL GRAINGER** EXAMINES THE INTERNATIONAL PAYMENTS LANDSCAPE FOR EURO PAYMENTS WITHIN SEPA.



## Executive summary

For corporates, the most significant issue of the Single Euro Payments Area remains adherence to European formatting standards to avoid repair charges and payment delays and ensure that their payments qualify for the pricing benefits of SEPA.

SEPA is being achieved through the introduction of two new payment instruments, the SEPA Credit Transfer and the SEPA Direct Debit, which both employ the new standards as mandatory.

Banks such as HSBC are now developing automation tools to assist in the validation and generation of the new standards, which are particularly important as domestic and cross border payment standards converge.

SEPA was created to resolve the inefficiencies of today's payments market, with its lack of standardisation for multi-country clients and the existence of many different payment instruments, each with their own rules, characteristics and costs.

The international euro payments landscape has shifted considerably since 2002 – culminating with the introduction of the Single Euro Payments Area, new payment formats are now mandatory for all cross-border euro payments within the EU/EEA, aiming to harmonise the plethora of domestic and cross border clearing infrastructures throughout 31 European countries.

In terms of SEPA, for corporates the overriding issue is meeting the requirements of the Interbank Convention on Payments (ICP). Failure to meet the ICP's prescribed STP standards will result in customers experiencing additional euro payment costs or even payment rejection, being unable to take advantage of SEPA.

## THE INTERNATIONAL EURO PAYMENTS LANDSCAPE HAS SHIFTED CONSIDERABLY SINCE 2002

**REPAIR FEES** In preparation for SEPA and in order to standardise bank and bank account details, the European Payments Council (EPC) Resolution, passed in 2005, dictated that from 1 January 2006, use of the beneficiary's BIC and IBAN become mandatory on all cross border euro payments within the EU/EEA. Failure to use such standards can be subject to charges, known more generally as repair charges.

Such repair charges come into force when

- 1) messages do not contain a valid IBAN – International Bank Account Number (in the correct field), and
- 2) messages do not contain a valid BIC – Bank Identifier Code.

Repair fees have ranged around the €10 mark per payment across the whole of Europe as banks look to pass back their increased processing costs and encourage the sender to get the correct payment details from their trading customer.

For clarity, it is the sending client who gets charged by their bank as it is their responsibility to get the BIC and IBAN details from their trading partner in order to get their payment records and effect the payment.

**BACKGROUND AND SCOPE** Since 1 January 2007, all banks have been entitled to reject or return as a matter of course, any cross border euro payments which do not include the appropriate BIC and IBAN details, in readiness for SEPA in January 2008

Initially this affected only intra-EU payments, although European banks increasingly levy similar repair charges on any euro payments coming into the EU, regardless of origin.

As such, all corporates, wherever they are located in the world, should use the BIC and IBAN formats on their euro



payments to avoid such repair charges and improve automation.

To date, most sending and receiving banks continue to process corporate payments for their own customers without the mandatory formats, but the receiving bank will generally apply a repair fee back to the sending bank. This is either passed back to the customer or absorbed by the sending bank if the customer was charged an additional fee up front by their bank, depending on local market practice.

**NEW STANDARDS FOR SEPA – BENEFITS OF PAYMENT AUTOMATION** So with the introduction of SEPA in January, the use of BIC and IBAN is mandatory for the recently launched SEPA Credit Transfer instrument and enables its STP. From November next year, this will also be the standard for the SEPA Direct Debit instrument, as many of today's national payment products, with their local characteristics, are phased out over time.

Not only do BIC and IBAN protect the corporate from repair fees and avoid delays, they also enable customers to benefit from much lower processing fees (euro cents instead of several euros) by using the new formatting standards. An important aspect in the design of SEPA instruments is STP. Only the volume processing of payments on an industrial scale, without any manual intervention, keeps costs low.

The use of such standards by corporates becomes even more desirable and pressing as countries move to domestic mandatory use of IBAN. Certain European countries are already adopting IBAN as the domestic standard (Italy, Luxembourg) as they seek to remove the inefficiencies of supporting multiple clearing systems. Others already have a well defined and well supported migration plan with timetables in place between 2010 and 2012 (Belgium, France and Malta).

Extensive economies of scale for corporates within the SEPA environment will only be achieved by establishing a single set of consistent pan-European payments instruments and moving away from the patchwork of national payment practices.

Further, if the SEPA formats are used by all the parties concerned, losses of data can be avoided. Still today, different formats are used because different systems are involved. Whenever one system changes to another, the data format needs to be converted into the respective target format leading to potential loss of data. If SEPA data formats are used throughout in future, there will be no need for conversion and all necessary information will reach the beneficiary (up to 140 characters).

Finally, the amount of time allowed to settle a payment transaction has been defined in the payment schemes. In practice, whereas a cross border payment may have taken up to a week to reach the beneficiary, SEPA payments may take no longer than three days, reducing to just one day from 2012.

In this way the notion of float will all but disappear from the European payments industry. It is also identified that there may be no deductions from the amount of the money transferred. Payment commissions will in future have to be agreed by the sending bank with its customer and the beneficiary bank with its customer.

## THE MESSAGE IS EVER CLEARER: CROSS BORDER AND, INCREASINGLY, EURO PAYMENTS FROM ANYWHERE IN THE WORLD MUST QUOTE THE BENEFICIARY'S BIC AND IBAN DETAILS

**BANK SOLUTION FOR SEPA STANDARDS COMPLIANCE AND AUTOMATION** Until now, corporates have had to go out to their suppliers/customers to source BIC and IBAN account details for cross border euro payments and make them SEPA compliant within their back office systems before submitting instructions to their bank.

HSBC can now supply its corporate customers with a software solution which will not only assist in achieving high STP levels and reduced repair fees, but also provide the tools to enable its cross border euro payments to be sent via SEPA.

This will be achieved through allowing customers to validate BIC/IBAN details before payment submission, or, if required, to derive these details from a bank name, address and BBAN (Basic Bank Account Number) details, subject to counterparty verification.

The means of delivering this information will vary according to the needs of the client, whether it be a CD based solution or online. HSBC also offers a service for the wholesale cleansing of back-office (payables or receivables) records.

As a result of SEPA, there is strong corporate demand for the latter solution where supplier bank details can be converted en masse from BBAN to IBAN, especially as European countries adopt IBAN as the domestic standard.

**A CLEAR MESSAGE** The message is ever clearer: cross border and, increasingly, euro payments from anywhere in the world, must quote the beneficiary's BIC and IBAN details.

It will become increasingly costly and difficult to make euro payments without BIC and IBAN.

Failure to adhere to this pan-European initiative will continue to result in higher payment processing charges or the rejection/return of customer payments, and perhaps now most importantly, such payments will be excluded from the SEPA environment. Domestic country euro standards continue to converge with cross border standards in order to fully integrate the euro payments market.

Using such tools as those available from HSBC will help corporates to embrace the cost benefits of SEPA, avoid payment delays and increase payments automation.

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