PETER HAZOU EXAMINES THE NEED FOR SINGLE PAYMENTS ACROSS EUROPE AND THE INITIATIVES REQUIRED WHEN MAKING PAYMENTS ACROSS BORDERS? HOW CLOSE IS THE CONCEPT OF SINGLE

Will single payments

Corporate treasurers, regulators and bankers all want to see greater transparency, homogenisation and the creation of a level playing field for cross-border payments and cash management sooner rather than later.

The resultant consistency, simplicity and, ultimately, lower costs would allow even a mid-sized company's often considerable cross-border business to flow according to the same rules and regulations as business conducted within a country.

Bankers, regulators and corporates have long agreed with the guiding spirit of cross-border-related regulation which is to make payments and cash management as easy and consistent – in service and price – between countries as it is within one country. This will result in lower costs for both corporates and the banks that process payments.

However, the playing field is still by no means as level as many have wanted it to be due to some understandable realities. Continental Europe now has an accepted, established common currency, but conducting the simplest transaction across a border can involve everything but the currency changing, creating a good deal more unnecessary complexity than is the case within a corporate's home country.

There are two major challenges – homogenisation and, secondly, countering ingrained habitual inertia. Like politics, to a certain extent, all banking is local, and all countries have long enjoyed their own individual standard, format, infrastructure and basic conditions, rights and obligations.

Executive summary

- Many corporates are supporting cross-border regulation aimed at making payments and cash management as easy and consistent – in terms of price, service etc – as possible between European countries.
- The Single Euro Payments Area (SEPA) still holds promise, although it has changed format with delays to its introduction. It is now defined as an area where payments are made and received – between or within national European boundaries – under the same basic conditions, rights and obligations.
- A newly-proposed EC Directive – the New Legal Framework for Payments in the Internal Market – aims to standardise payment information, execution, cancellation and finality. It recognises the importance of payment information – customers must be able to identify and automate the payments they receive to ensure reconciliation does not become a long and drawn out process.
- To aid reconciliation, standards for the delivery and format of payment information are needed. This can be achieved using MA-CUGs which allow corporates partial access to the SWIFT network and provide the full benefits of SWIFT without the high cost of joining as a direct participant.
- SWIFTNet and MA-CUGs and open standards such as XML have the potential to offer the same advantages on a continental scale. In the short term, local issues relating to formats and security levels would have to be addressed.

IS SEPA THE ANSWER? The Single Euro Payments Area (SEPA) (see *The price of single payments*, page 23, *The Treasurer*, September 2004) still holds great promise, though over time it has changed on several fronts as its transition from a concept to reality has continued to be delayed. As a result, there is now confusion as to its actual meaning and goals, and so a more current definition has been proposed: 'SEPA will be the area where citizens, companies and other economic factors will be able to make and receive payments in euro, within Europe – whether between or within national boundaries under the same basic conditions, rights and obligations, regardless of their location.'

Pending SEPA, other initiatives, such as the European Banking Association's Step 2, the first pan-European Automated Clearing House (ACH) system, will bring us closer to SEPA's ultimate goal. However, Step 2 only caters for credit transfers, although efforts are ongoing to develop a direct debit service, and banks are co-ordinating their efforts to drive this forward.

NEW NLF FOR PAYMENTS. There will soon be further progress on a newly-proposed EC Directive – the New Legal Framework for Payments in the Internal Market (see *Who's pulling the strings in Europe*, page16) – which will have a huge impact on the payments market and change the way in which payments are made and received.

Although this is still in its draft stage, it aspires to standardise, among other things, payment information, execution, cancellation and finality. That said, it is important to guard against the payment market becoming over-engineered and/or over-regulated,

BEING TAKEN TO ACHIEVE THE TRANSPARENCY PAYMENTS TO BECOMING A MARKET REALITY?

pay off?

which would both undermine the work done thus far and stifle innovation.

The directive recognises that payment information is becoming increasingly important. If customers are unable to identify and automate the payments that they receive, reconciliation becomes a long and drawn out process. There are many issues here, the main one being non-standard remittance information. Every country, clearing system, and individual bank for that matter, processes and truncates information related to a payment differently, leaving corporates with an array of information in a range of formats.

To aid reconciliation, standards for the delivery and format of payment information are needed. Using Member Administered-Closed User Groups (MA-CUGs) is one way of achieving this with standard Society for Worldwide Interbank Financial Telecommunications (SWIFT) formatted messages. MA-CUGs have been up and running for a couple of years now, but real interest from the corporate sector is only now becoming apparent. In simple terms, MA-CUGs allow corporates partial access to the SWIFT network through sponsorship by banks, bringing them the full benefits of SWIFT without incurring the relatively high cost of joining SWIFT as a direct participant.

‘IT IS READILY APPARENT THAT SWIFTNET AND MA-CUGS, AND OPEN STANDARDS SUCH AS XML, HAVE THE POTENTIAL TO OFFER THE SAME ADVANTAGES ON A CONTINENTAL SCALE’

In France in recent times MA-CUGs have been a main topic of discussion between banks and corporates. The growing interest of France’s large multinational corporates was confirmed in February when a Request for Information (RFI), managed by UTSIT Conseil, a Paris-based consultancy specialising in helping corporates to redesign their treasury activities, was addressed to the 32 banks registered with SWIFT as MA-CUG administrators. Its motivation was the lack of information available from banks concerning the rollout of products and services via this new banking channel.

The French corporate community is interested because it takes for granted advantages that interoperable standards and communication protocols bring to them in the multi-banking corporate-to-bank environment. This is why French corporates are now also working with their banks to understand issues surrounding use of Extensible Mark-up Language (XML) standards.

From a pan-European viewpoint, it is readily apparent that SWIFTNet and MA-CUGs, and open standards such as XML, have the potential to offer the same advantages on a continental scale, although in the short term local issues relating to formats and security levels and other areas would have to be addressed. Other examples of banks working with corporates to achieve increased levels of automation and standardisation can be seen in the Rosettanet and Treasury Workstation Integration Standards Team (TWIST) initiatives (see *Technical Update Extra*, page 64, *The Treasurer*, September 2004).

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Other means of achieving unified payments

Considering that the volume of payment transactions is growing (Trans-European Real-Time Gross Settlement Express Transfer volumes rose from 5.4m in January 2004 to 5.9 million in July 2004), interim solutions are required to create the appearance of a unified payments area. In packaging such solutions, banks must deliver:

- Homogenised pricing, such as specific pricing for fully straight-through processing (STP) payments and non-STP payments;
- A variety of client access such as thick client, thin client, mainframe to mainframe;
- Clear and simple documentation, such as consistent account opening documentation;
- Easy client implementation, such as a dedicated implementation team to ensure smooth transition;
- Cut-off times, such as competitive cut-off times based on currency and destination of payment; and
- Focused customer service, such as gold, silver and bronze customer segmentation).

Last June, SWIFT hosted a meeting in La Hulpe, after which both corporates and banks came away with a clearer understanding of what was possible on the one hand and what was required of them on the other. Banks are clearly challenged to respond proactively to demands from corporates to make Europe work as efficiently as one market. Regulators may attempt to achieve this but it is really in the best interests of the players involved to do so.