Why Asian companies should prepare for SEPA

The Single Euro Payments Area (SEPA) is poised to be implemented on February 1, 2014. Asian companies with European subsidiaries need to act quickly if they are to prepare their payments processes to be compliant with this new initiative, says Mahesh Kini, regional head of cash management for corporates – Asia Pacific, global transaction banking at Deutsche Bank.

Please explain what SEPA is, and its importance in the eurozone.

Mahesh Kini, Deutsche Bank (MK): The concept of the Single Euro Payments Area dates back to the introduction of the euro in 1999. At that time, there was a vision not just to have a single currency, but also a single clearing system across all countries participating in the eurozone. In 2002, the banking sector proposed to the European Payment Council initiating the creation of technology to make SEPA a reality, and over six years, this technology was put together. By January 2008, SEPA was introduced for credit transfers, and was extended to include direct debits the following year.

While SEPA was being built, the local clearing systems of eurozone countries continued to operate as they do today. Each had its own idiosyncrasies, with some more reliant on cheque payments, and others focused on local RTGS [real-time gross settlement], for example. But a clear directive was introduced last year announcing that as of February 1, 2014, all local clearing systems would be replaced by one single SEPA payment zone. This implementation process has taken longer than expected, and we are now coming closer to this deadline. As a result, corporates and financial institutions are rushing to be SEPA-compliant, so that they can continue to make problem-free credit and debt payments after this date.

It is worth emphasising that this is a serious final deadline. Companies cannot continue using the old national clearing systems and opt into SEPA later. If their payment processes are not SEPA-compliant by February 1, 2014, they won't be able to conduct credit or direct debit payments with their eurozone clients.

Unfortunately, at this stage, many companies are not yet ready for SEPA. According to the European Central Bank, as of February 2013, only about 38.2% of corporates had adopted SEPA requirements for their direct credit transfers, while adoption was as low as 2.3% for direct debits. This could perhaps explain why we have recently seen a huge rush to prepare for SEPA. At Deutsche Bank, we have been actively educating our clients in Europe and helping them through this transition.

MAHESH KINI
Asia-Pacific head of cash management for corporates, Deutsche Bank.

How relevant is SEPA for Asian corporates?

MK: It is extremely relevant to any Asian company that has operations of any scale in Europe. There has been an increasing interest among Asian corporates to grow their business in Europe, either organically or via acquisitions, for a number of years, and this continues today. But companies entering or expanding in Europe may not be familiar with the local operations of each country, making it more challenging to control cash and treasury management.

Therefore, SEPA will be a positive change for such companies, because it will radically simplify their operations in the region, offering them the ability to consolidate payments and have better visibility of cash flows for their head offices.

Many Asian companies already have large operations in Europe and they sell their products and services within the eurozone through their European subsidiaries. Operations of this nature will be immediately impacted by the SEPA deadline, but payments between a eurozone entity and one outside the eurozone must become SEPA-compliant by 2016, so companies in Asia buying or selling products to and from the eurozone also need to make an effort to understand the ramifications of SEPA and adapt accordingly.

What benefits does SEPA offer?

MK: The most obvious benefit is the standardisation of clearing systems for countries that use the euro. The region will soon have a uniform clearing system, which will reduce the inefficiencies involved in having multiple systems across dozens of countries.

To give a simple example, corporates doing business with partners in different European countries currently have to deal with different local clearing systems. This involves multiple file formats and charging mechanisms, as well as different times and dates on which payments have to be processed or information offered.

Consequently, Asia-based companies operating in several European countries have always had to establish a two-tier operating structure with both in-country bank accounts to facilitate local payments and collections in each country, and an overlay account structure in one of the financial hubs in Europe to consolidate euro liquidity. This resulted in corporates having to maintain a number of bank accounts, along with the need for these accounts to be audited each year and have the audits confirmed among many other requirements, in order to access the local clearing systems. Therefore, it could sometimes be quite costly and inefficient.

With a single payments system, these problems can be alleviated. Under SEPA, a company can place all of its accounts in one European location – be it London, Frankfurt or Amsterdam – from which it can make and receive direct payments to and from each local country. There are also significant operational benefits for corporates that can optimise and standardise their processes and file formats.

In effect, SEPA allows companies to create one payments conduit for all of their European payment operations, which facilitates synergies – especially for companies deeply rooted in Europe with operations across multiple countries. For example, instead of possessing 200-300 bank accounts across 30 countries in the eurozone, some multinational companies can collapse this down to 15-20 accounts in a single location. They can also reduce the number of legal payment entities that they need, down to one only. So SEPA can bring many benefits to corporates.

Is it difficult to become SEPA-compliant?

MK: It isn't simple. Corporates need to consider different aspects, including updating their customer / vendor master data on their ERP platforms with the international bank account numbers (IBANs) and business identification codes (BICs), which can be a large-scale exercise for a company and it will impact other departments, including procurement, sales and human resources, to name a few.

Second, there is the technology requirement. Corporates have to format payments files to be SEPA-compliant, which effectively means using XML standards to send and receive payment instructions, and not all corporates are XML-compliant today.

In addition, if corporates want to take advantage of the direct debit SEPA capability, they need their own clients to set up direct debit mandates (DDA) if they do not have one already in place. This requires a one-time authorisation from each client to allow direct debits in multiple European countries. While existing direct debit mandates are not affected, it can be a big exercise for new ones depending on the number of counterparties involved.

Last, it is worth reiterating that at this time, SEPA is just coming into effect with the eurozone countries, but in 2016 this will extend to the payments processes of all companies dealing with clients outside the eurozone as well.

Do Asian companies fully understand the finality of the February 1, 2014 deadline?

MK: I think there are still many Asian companies that need to get up to speed with SEPA. Given the adoption rate thus far among European corporates, there is clearly still a lot do to there and being based further away, Asian companies are likely to have an even greater need to become more familiar with the requirements and benefits of SEPA, and to realise the inevitability of its introduction.

This is where banks like Deutsche Bank can play an important role. As a market leader in providing SEPA solutions, we have put in place several media broadcasts to raise awareness of SEPA and the fast-approaching deadline of 2014. We regularly publish market updates on SEPA, we have dedicated teams managing regulatory dialogue on topics related to SEPA, and in different forms we may be able to influence the strategy direction of SEPA in Europe. We also have colleagues from Europe regularly doing client roadshows to educate multinationals on the importance of being prepared for SEPA's introduction.

It is particularly important that global banks also make such efforts here in Asia around SEPA, because the regulators in this part of the world have limited involvement in these particular changes. Unfortunately, if Asia-based companies with a European presence aren't informed, they may think that their subsidiaries in Europe can continue to conduct payments and collections in the traditional methods after February 1, 2014, which is not the case.

The number of conversations that we are having with our clients here in the region about SEPA – particularly with clients based in countries such as Japan and South Korea and that have well-established treasury centres in Europe – has been increasing steadily. But many more companies need to actively prepare themselves for SEPA. From a practical standpoint, this means that corporates need to speak with banks that are familiar with the demands of SEPA and to start changing their payments processes to become compliant.

At some stage, banks may be offering 'mapping solutions' to enable corporate clients that are not ready to comply with SEPA by 2014, using a data mapper provided by the banks to convert their payment files into the SEPA format. At Deutsche Bank, our focus is to help our clients reach the goal of being SEPA-compliant well ahead of the deadline.

Why should Asian companies introduce SEPA protocols now?

MK: Whenever major changes in market requirements are introduced, there is a significant first-mover advantage. Companies that adopt these practices early will have more time to benefit from the efficiencies that SEPA offers.

As a leading SEPA bank, Deutsche Bank has invested a lot of time in helping companies get ready for SEPA, so we are well positioned to help our clients in Asia to become SEPA-compliant.

Ultimately, all companies with operations in Europe will have to adapt their payments processes to become SEPA-compliant. There are long-term benefits from adopting these new processes and the quicker companies introduce them, the faster they will enjoy these cost savings and improved efficiencies. On the other hand, companies risk losing business if they have not adopted these new requirements ahead of the February 1, 2014 deadline. ◢

For more information, please go to: www.db.com/sepa.

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