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SEPA: It's Time to Act

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The Single Euro Payment Area (SEPA) payment instruments are mandatory standards that all companies operating in Europe need to adopt. The SEPA payment formats for SEPA credit transfers (SCTs) and SEPA direct debits (SDDs) become obligatory on February 1, 2014, for eurozone countries (and in October 2016 for those European countries not in the single currency). Companies therefore need to begin thinking about their migration project now.

Corporations that are not ready to use SEPA formats by February 2014 could risk not being able to make credit transfers or direct debits at all. Therefore, in order to ensure they are able to continue paying suppliers and employees, it is critical that corporates start to consider what SEPA will mean for them. It is not yet clear if there will be any regulatory or financial penalty for non-compliance.

Operational and Financial Benefits

SEPA is not just a regulatory burden for companies. There are also considerable practical, operational and financial advantages that come with migration, which include:

- Uniform transaction fees in all SEPA countries.

- SDD enables clients to collect payments from across the SEPA with one direct debit payment format, and into one account, aiding the centralization of cash management and the associated advantages, including simplified visibility of cash flows and optimization of balances.

- The mandatory ISO 20022 XML standard enables companies to use one format for all the banks in the Common Global Implementation (CGI) group. This gives companies flexibility to switch between banks and is a tremendous advantage that is not available currently.

Why Are Companies Delaying?

Despite the benefits, many companies have been slow to begin their SEPA adoption. It has been suggested that the uncertain financial environment has diverted attention away from what is seen mainly as a regulatory compliance project. Moreover, the SEPA project has been around for a long time and has, in the past, been voluntary. This meant that SEPA projects were often postponed when it came to budgeting for internal expenditure. As of February 1, 2014, SEPA will become mandatory and treasurers should be able to get traction with their CFO when it comes to allocating resources.

The cut-off dates for SEPA adoption have been extended in the past, but companies should not assume that the changeover date will be delayed again. Deutsche Bank works closely with local banking associations and regulators, and they have given us no indication whatsoever that there will be a delay or a postponement of SEPA.

Challenges for SDD Adoption: Mandate Management

While the adoption of the SCT formats is going well, there are some factors that make the adoption of the SDD formats more complex for corporates. These include the use of new data elements that corporates have not used in the past, such as a credit ID and a mandate number. Also, companies have to indicate the first time they submit a SDD.

The issue of mandate management is a key concern for many corporates. At the moment, companies don't have to keep a copy of direct debit mandates. With SDD, this will change and the corporate will be responsible for storing a copy (in physical or electronic format). Corporates have to develop this process, which will mean an extra cost either through developing the in-house software to store the files, or outsourcing this to a third-party provider.

File formats are also something of a grey area. SEPA transactions are cleared in XML, even though many corporates are still issuing non-XML payment files. While banks are able to convert the non-XML files into XML at the moment on behalf of their clients, the SEPA rules say that, come the migration end date, corporates should be issuing XML ISO 20022 files themselves. This grey area arises because some countries have interpreted this rule more flexibly than others — so will banks be able to continue converting files into XML after the SEPA end date?

Another possibility that has been mentioned in the market is that conversion to the XML ISO 20022 could be done by an independent third party. We need clarity on this issue. In other words: What is meant by a "third party" and how is the regulator going to enforce the rule? Above all, there needs to be uniformity for all countries, in keeping with the spirit of the SEPA regulation to encourage European payments harmonization.

SEPA represents an enormous opportunity for corporate treasurers to simplify and harmonize their European payments. The benefits range from reducing their number of bank accounts, to having a payments format accepted at any bank in the SEPA. This will almost certainly lead to consolidation in the European banking industry, as some banks will not be able to invest in SEPA services and most likely will opt instead to white label any offering through a larger banking partner.

Corporates must act now to ensure they will be ready to take advantage of uniform SEPA payments when they become mandatory.