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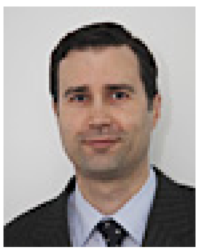
SEPA: The Countdown Begins



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There has been much debate on the subject of SEPA (Single Euro Payments Area). The initiative's benefits and feasibility have been called into question and, as a result, for some skeptics the project's success has been in doubt. Any such uncertainties have now been quashed by the announcement of an official end date for SEPA migration by European lawmakers.

February 1, 2014 is the date by which all corporates operating in the European Union (EU) and European Economic Area (EEA) must be using the SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD) instead of existing non-urgent mass credit transfers and direct debits. The hope is that this move will eventually reduce the cost of operating dual systems and mark a further significant step in the creation of a true European borderless payments landscape.

The deadline decision, therefore, provides not only much needed legal clarity and certainty on an intricate and far-reaching initiative, but acts as something of a game-changer. SEPA is no longer an optional initiative. It is regulatory, which makes it a top priority. As a result, corporates, particularly larger companies that tend to have more complex payments requirements, must begin migration preparations immediately if they are to meet the deadline. Many will find this a complex task that can only be made possible with the support of a capable and knowledgeable banking partner.

The Compulsory Steps to SEPA Migration

Though some companies will find addressing the various tactical and strategic steps to SEPA compliance more challenging than others, a successful transition — for all organizations — must begin with two crucial elements: a designated SEPA project team and a firm decision on whether to take a phased or so-called "big bang" approach to implementation.

Whatever the chosen path, the first port of call for corporate SEPA teams should be their bank partner(s), who should be able to offer the necessary expertise and technical support to steer companies through the compulsory — and optional, if desired — challenges and changes associated with the SEPA Credit Transfer and Direct Debit scheme.

One of the initial strategic points companies must consider is the centralization and/or consolidation of the payments function, both of which can lead to cost savings and efficiency gains and ramp up the benefits of the SEPA initiative.

By reducing the number of accounts — and indeed bank relationships — corporates can significantly reduce complexity and increase transparency throughout the treasury value chain. This can be of great potential benefit to working capital management, as well as aid reporting and reconciliation.

When discussing this issue, larger companies may wish to explore the prospective advantages of establishing centralized payables/receivables processing centers. These centers can further increase visibility into funding needs and liquidity management as well as tighten control over payment timing. However, corporates should not allow any such centralization initiative to endanger meeting the SEPA-migration deadline of February 1, 2014 — after all, SEPA compliance is a regulatory project, while centralization efforts are optional.

Such treasury management decisions must be considered hand-in-hand with format strategy. XML is the designated format for SEPA transactions, and corporates must migrate to it, if they don't want to rely on potentially costly conversion services offered by a number of global banks and vendors.

While XML migration is required, a move to XML may have a significant impact on corporates' enterprise resource planning (ERP) systems and connectivity, because not only must XML be a supported output format, but these files also tend to be much larger than their domestic or global equivalents. Any transition should, therefore, follow a detailed consultation process, as well as be well-timed and managed both internally and with external systems providers.

Preparation complexities do not end here. International Bank Account Numbers (IBANs) and Bank Identifier Codes (BICs) are the sole permissible account identifiers for SEPA transactions, and the issue of how to obtain and manage them is more complex than may be expected. This is especially the case for companies that operate in a number of European countries, as the procedure for obtaining these codes will vary between countries. While there are also vendor solutions available, these tend to be more expensive. In either case, some manual effort may be unavoidable. Once obtained, it must also be ensured that the relevant systems (such as ERP or HR systems) are able to accept and process IBANs and BICs. In some cases, this may require a new release or upgrade of the system.

It should also be considered that, under SEPA, the payment detail field is only 140 characters long, and many corporates will not be accustomed to such brevity. The majority tend to favor more detailed payment instructions, because they pay numerous invoices simultaneously. If corporates are to break such well-established payments patterns, payment instructions must either be adjusted — by being broken down into more than one payment, for example — or corporates must find ways to make the information they provide more concise or available outside of the payment message.

Finally, for corporates using direct debits today, there are even more required steps when preparing for the migration to the SEPA Direct Debit.

Meeting These Requirements

Migrating to SEPA is a significant undertaking, and the scope of the project should not be underestimated.

If corporate SEPA teams are to see that their organizations meet the compulsory compliance requirements in time, their best course of action is to work with a partner bank with the necessary expertise to ensure that the corporate takes the best route to migration, and the capabilities to ease the burden of compliance. The partner bank should also have a solid SEPA strategy and be in a position to offer a range of value-add services designed to optimize payments processes before and after SEPA migration.