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SEPA in 2014: Migration Presents Opportunities

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On February 1, 2014, migration to the Single Euro Payments Area (SEPA) credit transfer (SCT) and SEPA direct debit (SDD) will become a reality. Rather than looking at this as an end date, it should be viewed as the beginning of new and exciting centralization, automation and standardization opportunities for corporates. They will now have the opportunity to concentrate on the resulting benefits of SEPA compliance instead of focusing on looming deadlines and rising implementation costs.

The Benefits of SEPA

SEPA will enable corporates to move forward with a next-generation treasury/shared services platform. For example, the evolution of centralized payment factories can now be more readily complemented by centralized collection factories.

Payments centralization will be much easier to achieve once SEPA is in place, because companies will be using the same file format for payments across the SEPA zone, and the fee structure will be the same, regardless of whether a payment is domestic or cross-border. With SEPA direct debits, for example, companies will no longer have to take into account the different processing times involved in clearing direct debits in individual European countries. A definite advantage of the SEPA file formats for payment/collection factories is that it includes an “on-behalf-of” field.

Any corporate interested in further integration of treasury operations with shared service centers (SSCs) should be taking advantage of SEPA. Typically, an SSC will offer a multiple-entity organization the broadest range of specialized services, enabling the organization to move accounting, human resources, IT, security, along with liquidity management and accounts payable and accounts receivable services, closer to its treasury center's operations.

Usually, the basis for the provision of services is a service level agreement between the participating entities with cost allocation on the basis of agreed-to transfer pricing. While treasury has often created separate treasury centers, which have a propensity to evolve into in-house banks (IHBs), the current trend is to fold treasury centers or IHBs into broader SSCs — or, where they do not yet exist, to create an IHB without an SSC.

Both scenarios describe another common evolutionary trend — using the centralized liquidity of the IHB to centralize payments via a payment factory.

SEPA uncovers opportunities to further develop the payment factory by extending pay-on-behalf-of services to more affiliates and by expanding the concept to the collection side (a collection factory) to offer receipt-on-behalf-of services. In the context of platform evolution, therefore, SEPA provides corporates with a catalyst to not only expand the scope of their existing IHB/payment factory, but also a vehicle to further integrate and consolidate their treasury and SSC platforms in Europe.

Many corporates are considering payment centralization projects, and US companies with a large presence in Europe are often the earlier adopters of such solutions. Many already saw Europe as one zone, and SEPA has made it all the more so by enabling unified payments and collections within this zone.

Reducing Complexity

After embracing the move to SEPA and centralizing treasury functions, corporates will be presented with considerable opportunities for the simplification of payments and collections, further streamlining account structures as well as enhancing efficiencies in the entire payment and collection processing chain. Through the launch of the XML standard, SEPA will eliminate the current multitude of national payment formats in Europe. Companies doing business in several countries can significantly reduce their expenses related to format maintenance and system administration.

Some banks such as Deutsche Bank are also offering to accept the XML format for other global payment transactions, thus allowing companies to settle their global payments through a single format. Additionally, the standardization of processes, including uniform settlement periods and exception processes for all European countries, will significantly reduce current complexities.

Some new data elements have been introduced for SEPA with the aim of facilitating account reconciliation for companies. This includes, for example, a special originator reference and a standard length of the remittance information that banks will be required to pass on to their clients. Furthermore, companies maintaining accounts abroad to handle local payments may be able to centralize such accounts and the associated liquidity. Current differences between domestic and international payments are eliminated.

Companies are increasingly recognizing the benefit of channeling payments and/or collections through a single account, making payments on-behalf-of or collections on-behalf-of multiple group entities. By leveraging a single external account, supported by an in-house bank, treasurers can rationalize their accounts and simplify cash management structures.

A New Reality

SEPA provides a range of opportunities while making an optimal treasury management structure a realistic and attainable goal. Deutsche Bank is working closely with its clients to help them unlock new efficiencies as they move to the next level with SEPA 2.0.

For more information, Deutsche Bank's "A Practical Guide to Successful SEPA Migration" and "The Ultimate Guide to SEPA Migration" are available for download from Deutsche Bank's SEPA dedicated website: www.gtb.db.com/content/en/sepa.html