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Despite Slow Adoption of Payment Instruments, US Firms in Europe Need to Prepare for SEPA

The migration to Single Euro Payments Area (SEPA) payment/collection instruments is continuing at a slower than anticipated pace. However, with the European Commission soon expected to bring clarity around the discussion about an end date for legacy payment schemes (i.e., they will eventually be fully replaced by SEPA instruments), it would be prudent for US-based corporations operating in Europe to accelerate their SEPA preparations.

The SEPA initiative aims to harmonize, standardize and ease the movement of euro payments throughout the European Economic Area (plus Switzerland and Monaco). Thus far, the SEPA Credit Transfer (SCT) that was introduced in January 2008 has been adopted for less than 8% of the potential credit transfer volume in the target market, according to the European Central Bank (ECB). Meanwhile, the adoption rate for the SEPA Direct Debit (SDD), launched in November 2009, is thought to be well under 1%, although ECB statistics are not yet available.

Why the Slow Start?

The rationale for adopting the SEPA payment instruments is strongest for US firms operating on a pan-European basis. SEPA aims to allow these companies to make payments and collect funds across the EU using one bank account in one country, thus eliminating the use of local payment/collection instruments and local bank accounts and the need to utilize a multitude of file formats and adhere to various direct debit return rules.

Indeed, some corporations have begun using the SEPA instruments, although in the case of the SDD most are only testing the new instrument at this point. Few are using it to collect large volumes of payments.

The biggest reason for the low usage of these instruments is simply that, for many corporates, the business case isn't compelling enough to make the migration voluntarily. Indeed, much of the payment volume in these markets is domestic, and the vast majority of companies that only have domestic payments see little in the way of benefits from SEPA.

A second reason for the initial light SDD usage is the issue of debtor bank "reachability." According to the European Payments Council, only about 70% of European banks can accept SDDs to their client accounts. Corporations sending SDDs to the other 30% of European banks would experience rejects on such transactions and have to revert to a national direct debit scheme.

Turning the Tide

Two events in the coming year, however, could accelerate adoption of the SEPA instruments.

One occurs in November, when Regulation (EC) No 924/2009 requires all European debtor banks to have the capability to accept Core SDDs on behalf of customers having their accounts debited. In other words, the regulation mandates 100% pan-European reachability for the Core SDD instrument.

The other event, which may occur this summer and have even more influence over SEPA migration, is the European Commission's expected announcement regarding an end date for the national legacy payment/collection schemes. The European Parliament has pushed for an end date of no later than year-end 2012, but there's been no indication of what end date the commission will have in mind (and whether it will be achieved via regulation) — only signs that an announcement is coming.

A firm end date would change the entire discussion. Corporations operating in Europe would need to shift from a mode of deciding whether or not to migrate to SEPA payment instruments — based on return-on-investment calculations and development of a solid business case — to more of a definite planning approach.

Preparation Advice

With mandatory migration to SEPA instruments potentially looming in the next few years, corporations operating in Europe need to be talking to their banks and analyzing how this change will impact them.

To prepare for the SEPA migration, Deutsche Bank recommends that corporations establish SEPA project teams headed by SEPA project managers. These teams can review a range of issues. For example, what if your company has an enterprise resource planning (ERP) system that cannot process International Bank Account Numbers (IBANs), which must be included in SEPA transactions? Will you need an upgrade to your ERP system? How much will this cost, and what are the other implications?

Deutsche Bank can assist corporate clients with educational workshops and is available to provide counsel on all the issues that need to be considered when preparing for a migration to SEPA. Talk to your Global Transaction Banking representative to learn more about how SEPA might impact your corporation.