Planning for SEPA Migration

by Dieter Stynen, Head of Cash Management Corporates (CMC), Western Europe, Deutsche Bank

In an ideal world, I would love to be writing an article reassuring treasurers and finance managers that migration to SEPA payment and collection instruments is straightforward, that the project is the same for every company and can also be safely implemented within a short time period. I'd like to tell people that, as the end date for domestic credit transfers and direct debits is still nearly a full year away, they still have plenty of time. Sadly, I cannot do so. SEPA migration is an urgent, challenging and substantial undertaking – every project will entail different challenges, impact a large number of stakeholders and time is flying by rapidly. This article outlines why companies should be prioritising SEPA migration as a matter of urgency, and some of the factors that contribute to a successful project.

A shift in corporate motivation

For banks such as Deutsche Bank, SEPA preparations began as soon as a vision of harmonised payment and collection instruments across the Eurozone was first outlined in 2001. This meant that we were among the first banks to process SEPA Credit Transfers (SCTs) when they were launched in 2008, and SEPA Direct Debits (SDDs) in 2010. From the very beginning, we have been – and indeed remain – proactive in providing information, education and practical advice to customers throughout Europe and beyond, in order to help them plan their migration project. An example is our well-received Ultimate Guide to SEPA Migration, which provides very detailed advice and support, and we are building on this with the upcoming release of an XML Checker, which will enable customers to validate their file formats.

“Customers are now proactively seeking information on SEPA and practical advice on adoption.”

The relatively low proportion of SCT and certainly SDD transactions (30.6% and 2.1%, respectively according to ECB statistics, November 2012) would suggest that, despite efforts to emphasise the importance and immediacy of migration, corporates have shown relatively little motivation for migration. However, with the end date for domestic credit transfers and direct debit schemes now less than a year away, we are seeing a shift. Customers are now proactively seeking information on SEPA and practical advice on adoption.

However, there are still some misconceptions about SEPA, which continue to impede adoption. One such misunderstanding is that the end date for domestic schemes will be delayed. Another is that there is no need to convert files to XML format as banks will provide a conversion service. Firstly, there has been no indication that the February 2014 deadline will change. Secondly, while banks such as Deutsche Bank are actively supporting file conversion to assist customers in becoming SEPA compliant, the regulation's rules state that companies should be issuing XML payment files directly by the 2014 end date. This is a bit of a grey area, however, as some countries have interpreted this rule in different ways. Italy and Spain, for example, have already confirmed they will continue to accept domestic formats until 2016.

One option is the use of a third party conversion service provider. Customers send files to the provider, which converts them to XML and sends them on to the relevant bank(s). Such services are likely to prove invaluable to companies for whom the migration timescales are challenging. Consequently, with some ambiguity remaining over the type of support that will be available to those that have not migrated by the end date, it is essential that companies prioritise migration to avoid the risk of non-compliance.

A business imperative: compliance risk

In the past, treasurers and finance managers have found it difficult to convince senior management of the need to migrate, and therefore to secure the necessary budget and resource allocation. With the deadline now looming, this should no longer be the case. There are two elements that comprise the business case for SEPA migration: firstly, the need for compliance; and secondly, the advantages of standardisation, centralisation and rationalisation that can ensue

> SEPA migration projects will vary considerably for each company.

from a harmonised European landscape. We will discuss the benefits that can be achieved from implementing SEPA instruments in a subsequent article in TMI, but the issue of compliance should be compelling in itself. Managing compliance risk is a major responsibility for treasurers and finance managers. The risk to the business in the event of failure of payments to employees or key suppliers could be considerable. The same applies to collections: if direct debits were to fail, customer collections would be delayed, resulting in both internal and external business challenges – such as adverse effects on working capital and reputational damage. There are clear benefits to collecting cash through direct debits, but if direct debits fail, customers may choose to use alternative methods in the future, affecting flow certainty and predictability.

SEPA migration projects will vary considerably for each company. The effort required by organisations operating in one or two countries, with few direct debits and a relatively cohesive technical infrastructure, will inevitably be less than that needed for a more complex, disparate and technically diverse business. Even within a company, particularly a decentralised organisation, the experience of business units within the same company will also vary. It is typically easier to achieve migration in a centralised payments and/or collections function. Processes and technology are more likely to be consistent, and fewer stakeholders may need to be involved in the project. In a decentralised organisation, each business unit's migration may essentially represent a separate project, and banking relationships, bank connectivity, payment and collection processes may be more diverse. Even if a single SEPA team provides co-ordination centrally, it can be difficult to achieve complete visibility and control over local project activities. Ideally, the SEPA migration project would coincide with, or be part of, a wider centralisation project, but there may no longer be time to achieve this by the 2014 deadline. Instead, companies need to focus on compliance, but be guided by a longer-term plan to use SEPA as a catalyst for greater change once SEPA compliance has been achieved.

From complexity to positivity

While companies need to be realistic about the critical nature and potential complexity of their SEPA migration, the project should be seen positively, not least due to the potential benefits of standardisation, centralisation and rationalisation that can ensue. Furthermore, the experiences of those that have already migrated, and expertise from banks such as Deutsche Bank, significantly reduce project risk for early adopters.

Based on a number of successful customer projects, there are some important factors that treasurers and finance managers should consider at the start of a migration project. These include:

Vendor database. Vendor settlement instructions and employee bank account details need to be updated with IBAN and BIC information. In many cases, companies already have this in place, but the migration project is an opportunity to validate this database to minimise payment failures. This information may be stored in multiple locations; for example, HR departments may hold employee details.

Country review. Treasurers and finance managers need to review the transaction types that are used in each Eurozone country of operation, and determine which of these are affected by SEPA. For example, all credit transfers and direct debits will need to be migrated, but domestic instruments such as cheques and commercial bills remain unchanged at present. Ultimately all transactions settled in euro need to be migrated, but the deadline for non-euro countries is 2016. This process will provide some indication of the scale of the migration project.

Technology review. Having established which payments and collections need to be migrated to SEPA, the systems that are used to create or transmit payment instructions, process collections or reconcile bank account statements need to be identified. Internal IT departments, external vendors and banks may need be involved in the conversion process for these systems so that they can process or accept new file formats and/or content.

Direct debit mandates. Some domestic direct debit schemes are excluded from the scope of SEPA, such as anticipos de crédito and efectos comerciales in Spain and Italy, but most direct debits will need to be migrated. Treasurers and finance managers need to determine whether direct debits will be converted to the core or B2B SDD scheme. In most cases, the core scheme will be most relevant (which enables existing mandates to be transferred), while B2B SDDs need new mandates. Companies may consider a range of techniques to encourage customers to sign up for payment via B2B direct debit, such as discounts and incentives. New direct debits set up in the future will also require new mandates, and the mandate management process differs from most domestic schemes, so an action plan is required to achieve this. Ideally, mandates should be converted by the summer of 2013 to allow enough leeway for potential delays and put new mandate management processes into operation.

Act without delay

While 1 February 2014 is the published end date for SEPA migration, this date is misleading. Many companies have an IT freeze at the end of the year, and contingency needs to be built into any project that touches so many different parts of the business, and impacts on so many systems and processes. The potential cost and reputational damage of non-compliance is considerable, and companies should anticipate the significant long-term benefits that can be achieved by leveraging the standardisation, centralisation and simplification opportunities that SEPA presents. □

Dieter Stynen

Head of Cash Management Corporates (CMC), Western Europe, Deutsche Bank

Dieter began his professional life in the chemicals sector, and then moved into banking in 1996 as a customer service officer for global custody clients at The Bank of New York Mellon. He joined Deutsche Bank in 1998 as a cash management sales advisor in the local Benelux/France sales team. After four years, he moved into the treasury solutions team and was made head of the Europe, Middle-East and Africa (EMEA) region in 2009. In July 2012, Stynen was appointed head of sales for corporate cash management (CMC) for Western Europe.

He holds a Masters degree in Applied Economics from the University of Antwerp, Belgium, and an MBA from the Katz Graduate School of Business, University of Pittsburgh, USA.