Three steps to SEPA

The background to and benefits of the Single Euro Payments Area (SEPA) have been widely discussed. With the migration deadline of 1st February 2014 fast approaching, corporates should be seriously considering how they can make SEPA-compliance work for them. But for Deutsche Bank's Karsten Becker, Senior Product Manager, European Corporate Payables and Receivables, now is also the time for action. So, for treasurers who have yet to embark on a SEPA project, what needs to be done?

This is a high-level call to action. SEPA is looming, and corporates that fail to act could very quickly be looking at failed payments and perhaps far more serious consequences. The financial and practical benefits of SEPA have seen much publicity since the idea was born and, at this late stage, corporates should focus on these benefits – rather than dwell on the negatives of non-compliance – as they make plans to migrate. That being said, all migration plans – whether spurred into action by fears of missing the deadline, or in anticipation of the potential gains – must begin with solid advice and guidance.

Advice for corporates

There are three basic steps that must be taken and, given the amount of work that needs to be done, the pressure to start now should not be resisted, despite the myriad other projects competing for your time, effort and resources.

Step 1. Take a realistic view of where you are today and identify the gaps between this point and where you need to be

This means finding answers to questions such as:

- In what ways does SEPA impact your organisation?
- How embedded are local payment formats in the company's processes?
- Is the company BIC and IBAN ready?
- What third party software (ERP/TMS) do you use and is it able to accommodate SEPA (eg. for reconciliation)?

At this point, it is important to recognise that a SEPA project will require both budget and time. Analysis tends to be one of the longer phases of a SEPA project. Corporates that are entering this phase now do not have the luxury of time to take a leisurely approach to systems and process analysis, especially as the follow-on phases should be completed before financial year-end processes start to freeze certain activities, especially around IT. With this in mind, a February 2014 deadline realistically means a November 2013 deadline and reaching project completion before the end of this year should be the goal.

Action points here:

- Appoint a project team – in-house and with your key partners (banks/vendors).
- Ensure internal lines of communication stay open and that everyone across the organisation – including senior management – understands the risks of not being SEPA-compliant.
- Review administrative processes and systems. Identify areas that are lacking – eg mandate management for the SEPA Direct Debit (SDD), or the capacity to deploy the ISO 20022 XML message format.

Step 2. Get a plan in place and take action to upgrade your infrastructure

Whether opting for a wholesale changeover to SEPA, or a phased roll-out of changes, corporations need to have a migration plan. Points to consider when drawing up the plan include:

- Will you roll out SEPA on a country-by-country basis? (Bear in mind the country-specific requirements).
- Will you adopt SDDs or SEPA Credit Transfers (SCT)? Which will you adopt first?
- How will BIC and IBAN be obtained? Is a vendor solution appropriate?
- Will the company do its own mandate management for SDDs? Or is a third party solution preferable?
- Does the company require systems updates in order to be SEPA-ready (eg IBAN, XML)? If so, what specifically is required?
- What documentation changes are required?

Once these questions have been answered, a final plan should be drawn up that outlines deadlines for each part of the project to be in place. When looking at a timescale for the project, remember to allocate sufficient time to roll out the changes and don't forget to incorporate adequate time to test them.

Step 3. Make the change

The third step is to execute the migration plan, while paying attention to accounts information and reconciliation processes, which can often go under the radar. Some final checks will be necessary at this point and these should include answers to the following:

- Are all your payment processes SEPA-ready? (You do not want to be stuck with failed payments or face huge wire bills because you were unable to pay a supplier or an employee, for example).
- Are the company's collections SEPA-compliant?
- Have the reconciliation processes been adjusted?
- And what about all the associated IT processes – can the ERP reconcile with SEPA formats?
- Have all stakeholders – internal and external – been adequately consulted and kept fully up-to-date with the changes?
- Have staff been trained appropriately on SEPA? This could be anything from new software to new procedures.

SCT projects are often tackled before their SDD counterparts, but in reality there is no requirement regarding the order taken. Either way, there will almost certainly at this stage be an overlap between some of the steps and elements of the project. Companies should be looking to complete the analysis phase by the end of Q1; carry out phase two's adjustments and upgrades to the IT infrastructure by the end of Q2; and aim to have account information, migration and testing finished by the end of Q3. This will leave a buffer zone into Q4 for any clean-up activities that may be required (bearing in mind that this may also run up against year-end procedures).

While the project appears daunting, for corporates investing time and resources now, as well as setting aside a window of around two to three months for each step, migration to SEPA can still be accomplished in time and pave the way for a centralisation project. However, while SEPA is a real driver for centralisation, the time remaining to migrate means any centralisation project will need to be conducted separately. SEPA compliance by the deadline must be the absolute priority now.

In the event of non-compliance, the worst case scenario is that it may not be possible for the banks to execute certain payments. This may be the case if, for example a payment file which otherwise carries all the necessary information, is not submitted in the required XML format. Businesses should therefore update their own ERP or treasury systems to support the XML file format, or alternatively consider sending their legacy file formats to a third party vendor for conversion.

While there are a number of important activities that must be tackled right away to meet the SEPA deadline, some of the most important "to-dos" for a successful SEPA-migration are:

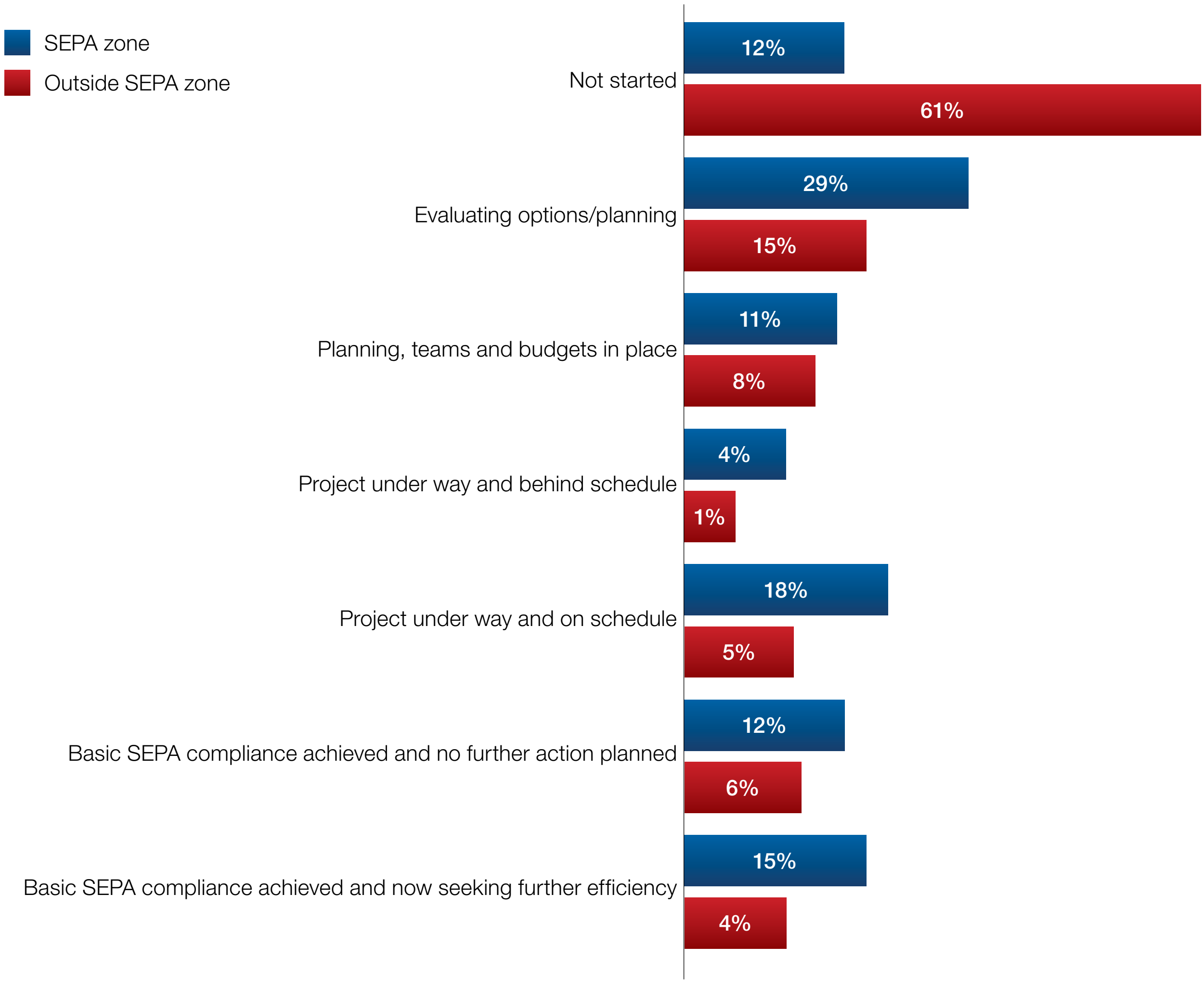
- You must obtain all your required IBANs and BICs.
- You must upgrade and update your treasury or ERP systems in order to accommodate these and other SEPA requirements.
- You must ensure your payments messages are XML-formatted.
- If you intend to use SDD, you must start mandate management now.

This is a vital project and should be treated with the urgency and gravity it requires; the consequences of not being able to make your payments do not bear delaying the project.

The end result of SEPA-compliance will be well worth the effort. It is only once the 'get legal' phase is complete that the 'real' benefits of SEPA can be realised.

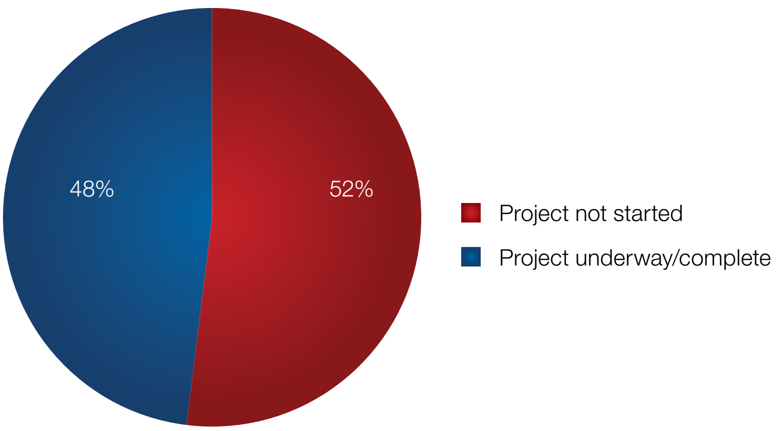
Countdown to SEPA – how ready are corporates for the February 2014 compliance deadline?

What is the current status of your company's SEPA project?



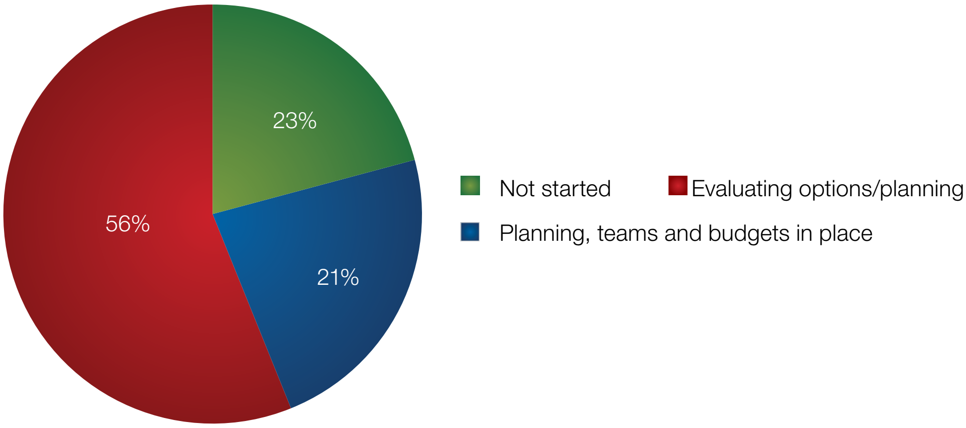
Source: EuroFinance

Analysis of SEPA zone corporates projects

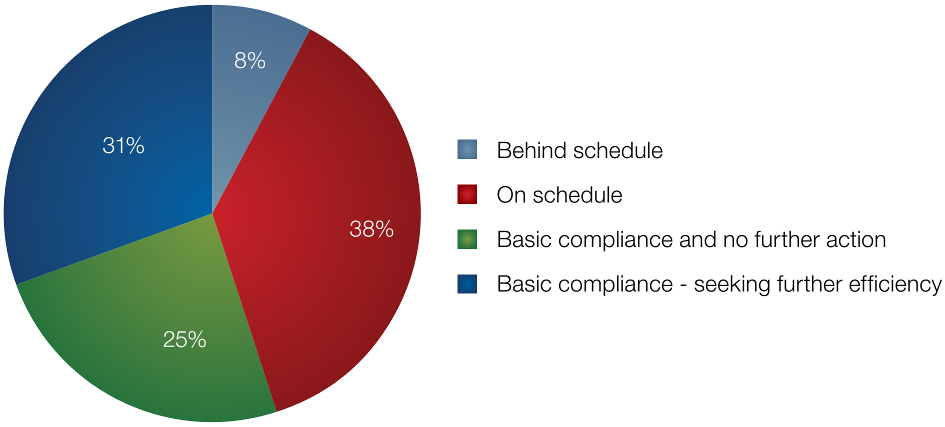


Source: EuroFinance

Project not started



Project underway/complete



- More than half (52%) of corporates in the SEPA zone have not yet started their SEPA project and almost a quarter of these have not even started to investigate the issue. Of those who have already started their SEPA project, 8% are already behind schedule, illustrating the size of the challenge ahead.

Source: EuroFinance

A total of 273 finance and treasury professionals responded to the Countdown to SEPA survey, which was sent out on 27th November 2012.

Respondents by organisation type: 89% of the respondents were from corporate treasury/finance departments. For the purpose of the analysis of the data, the answers were broken down for corporates based inside and outside the SEPA zone.

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For more information and to download your Ultimate Guide to SEPA Migration go to: **www.db.com/gtb/sepa**