treasurytoday

As SEPA deadline looms, half of companies have not yet started project

With just over a year to go until the migration from legacy payment instruments to single euro payments area (SEPA) instruments, the lack of corporate preparedness is worrying. Is there a silver lining to SEPA that corporates can tap into that will create a upsurge in adoption?

More than half (52%) of corporates in the single euro payments area (SEPA) have not yet started their SEPA project and almost a quarter of these have not even started to investigate the issue, according to a survey by EuroFinance, despite the looming deadline of 1st February 2014. Of those who have already started their SEPA project, 8% are already behind schedule, illustrating the size of the challenge ahead.

The survey, which polled 273 finance and treasury professionals, identified seven stages to a SEPA project:

1. Not started.
2. Evaluating options/planning.
3. Planning, teams and budgets in place.
4. Project under way and behind schedule.
5. Project under way and on schedule.
6. Basic SEPA compliance achieved and no further action planned.
7. Basic SEPA compliance achieved and now seeking further efficiency.

The picture may not be as bleak as it first seems. Of the 52% that have not yet started implementing SEPA, only 23% have not done anything yet, while 56% are in the analysis and project-planning phase and the remaining 21% have already set-up and budgeted the project and are thus about to start implementation.

"Given that the analysis phase (eg what and where are all my systems that have account data, what file formats are currently being used, how do I obtain IBANs, what mandate-management solutions are in place or need to be procured?), which is the second of seven stages of readiness and is often the most complex part of the entire project, I would argue that only 12% are truly behind," says Andrew Reid, Head of Trade and Cash Solutions EMEA at Deutsche Bank, which sponsored the survey.

"The reason for that may vary: maybe they only use credit transfers (no direct debits) in a few countries, have a fully SEPA-capable ERP system, or may simply be active only outside of the Eurozone or even the SEPA zone altogether," he says.

SEPA confusion

However, it is worrying that 31% of corporate finance and treasury professionals within SEPA zone countries admit that they are still uncertain about what is required for their company to be SEPA compliant by February 2014.

Reasons cited for this include:

- Receiving conflicting advice from different banks about the interpretation of European Payments Council (EPC) rules.
- Uncertainty over when local payment formats will be replaced by SEPA formats and about periods of coexistence of the two formats.
- Uncertainty about XML ISO 20222 data formats and rules affecting their implementation.

For those that unsure as to what is needed, Reid advises: "Talk to your bank(s) immediately to obtain preparation/migration advice. At Deutsche Bank, besides offering numerous value-added services to minimise the effort required by corporates, we have also created 'The Ultimate Guide to SEPA Migration' to help corporates prepare and migrate in time. However, despite all this, we want to emphasise again that not doing anything is not an option for any company."

He believes that there is a real risk to a 'wait and see' approach. "The risks are that banks may not be able to process the payments/direct debits from such a corporate, or may only be able to do so with manual intervention, causing delays and additional charges. Thus, not doing anything is not an option for any company. It is 'five minutes to 12' and the clock is ticking – every company should put in place a project team immediately."

Against the notion that the deadline might be pushed back, Reid argues that there is no political will by European law makers to change Reg. 260/2012. "In addition, it is important to understand that dates can't just 'slip' because they are based on existing law. To postpone them would require changing Reg. 260, and changing a law is generally a rather lengthy and cumbersome process, which (even in case there was political will) would likely be quite challenging to accomplish in just 12 months."

Basic compliance or something more?

The goal of SEPA is to improve the efficiency of cross-border euro payments and 28% of companies are currently planning to achieve this result. Of the rest, the majority (72%) have either set no goals or are aiming for 'basic compliance', eg having no rejected payment instructions and associated charge back costs after February 2014.

This is a real missed opportunity, according to Reid. "SEPA also offers a 'sunny side'. Benefits come in the form of harmonised file formats and payment/collection instruments, reduced float, easier access and growth into new markets, reduced differences in bank fees across Europe and reduced fees in higher-priced markets," he explains.

However, as the low migration rates prove, for most corporates these benefits were not sufficient to offset the required implementation costs. "Nevertheless, by using SEPA as a driver to facilitate centralisation of payments/collections (potentially even under an on-behalf-of structure), corporates that operate in many countries and/or through many legal entities can potentially generate substantial operational efficiencies," says Reid. "Other potential benefits of centralisation can include: better control and risk management due to the standardisation of bank interfaces; the optimisation and standardisation of internal processes; and improved visibility over and access to cash (in case of a reduction/centralisation of bank accounts)." ■