



SEPA: the countdown begins

Overcoming the challenge of compliance with the support of a capable and knowledgeable banking partner

Passion to Perform





Deutsche Bank's White Paper series provides in-depth analyses of the broad spectrum of issues affecting the global corporate treasury management industry today. By identifying and evaluating the reasons for, impact of, and potential solutions to the latest game-changing developments in this space, White Paper charts the course to maintaining a competitive edge despite challenging market conditions. In this White Paper Karsten Becker, Senior Product Manager for Corporate Payables & Receivables, discusses how time is up for corporations taking a "wait-and-see" approach to SEPA.

There has been much debate on the subject of SEPA (Single Euro Payments Area). The initiative's benefits and feasibility have all been called into question and, as a result, for some sceptics the project's success has been in doubt. Any such uncertainties have now been quashed by the announcement of an official end-date for SEPA migration by European law makers.

February 1, 2014 is the date by which all corporates operating in the European Union (EU) and European Economic Area (EEA) must be using the SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD) instead of existing non-urgent mass credit transfers and direct debits. It is hoped that this move will eventually reduce the cost of operating dual systems and mark a further significant step in the creation of a true European borderless-payments landscape.

The deadline-decision, therefore, provides not only much-needed legal clarity and certainty on an intricate and far-reaching initiative; but acts as something of a game-changer. SEPA is no longer an optional initiative. It is regulatory, which makes it a top priority. As a result corporates, particularly larger companies that tend to have more complex payments requirements, must begin migration preparations immediately if they are to meet the deadline. Many will find this a complex task that can only be made possible with the support of a capable and knowledgeable banking partner.

SEPA: the story so far

While the end-date may be responsible for the renewed focus on SEPA, the initiative is hardly new. The electronic euro-payments harmonization initiative has been a reality since 2008.

January 28, 2008 saw the launch of the SEPA Credit Transfer, which was followed the subsequent year by the introduction of the SDD. These services paved the way for the project, which when fully developed, should fuel technology innovation and lead to an increasingly competitive future payments market.

While this ultimate goal may be some time away, SEPA can bring more immediate benefits for corporates, particularly those conducting business in many European countries.

The first of these benefits are the possibilities the project provides for payments processing standardization and optimization. Not only can this increase operational efficiency, which in turn decreases costs, but it can also reduce complexity and improve transparency.

Faster settlement times and the principle of credit without deduction also offer major advantages for users of the SEPA credit transfer in terms of company cash flow. The initiative dictates that the maximum execution time for SEPA credit transfers is one business day, and the beneficiary's account must be credited in full without the deduction of fees from the principal amount. As companies can be certain of when funds will arrive and how much they can expect to receive, working capital management can be significantly improved. In credit-straitened times, optimal company cash flow management is a vital tool for success and business sustainability.

The SDD offers, for the first time, a direct debit instrument for cross-border direct debits (domestic ones are of course covered as well). Besides the core scheme the SDD also offers a business-to-business (B2B) scheme.

The most important differences between the two are:

- Usage
 - Core SDD: can be used with consumers and companies
 - B2B SDD: must be used with companies only
- Return right by debtor
 - Core SDD: eight weeks after debit
 - B2B SDD: no return right after debit
- Mandate check by debtor bank
 - Core SDD: optional
 - B2B SDD: mandatory

Despite such advantages, corporate take-up of SEPA has been painfully slow. Yet rather than supporting the SEPA-sceptics' argument, this reluctance is perhaps unsurprising.

As a voluntary project, SEPA implementation by any corporate necessitated a solid business case and, for many, the pro-migration argument simply was not strong enough – despite the potential benefits. Migrating payments and direct debits to SEPA format can be a costly undertaking, and many companies have been (understandably) averse to invest in this while faced with a series of more immediate pressures.

The end-date announcement, however, has removed the need for a business case and return on investment requirement. As a result, the debate as to whether or not to make the move to SEPA is dead; the question now is how to best manage the transition. Though the required level of corporate preparation effort will rise in accordance with the complexity of existing payments processes, even those with more basic needs should put the migration wheels in motion immediately if they are to meet the deadline and reap the rewards SEPA can bring.



The compulsory steps to SEPA migration



Though some companies will find addressing the various tactical and strategic steps to SEPA compliance more challenging than others, a successful transition – for all organizations – must begin with two crucial elements: a designated SEPA project team and a firm decision on whether to take a phased or so-called ‘big bang’ approach to implementation. Whatever the chosen path, the first port of call for corporate SEPA teams should be their bank partner(s), who should be able to offer the necessary expertise and technical support to steer companies through the compulsory – and optional, if desired – challenges and changes associated with the SEPA credit transfer and direct debit scheme.

One of the initial strategic points companies must consider is the centralization and/or consolidation of the payments function, both of which can lead to cost savings, efficiency gains and ramp-up the benefits of the SEPA initiative. By reducing the number of accounts – and indeed bank relationships – corporates can significantly reduce complexity and increase transparency throughout the treasury value chain. This can be of great potential benefit to working capital management, as well as aid reporting and reconciliation. When discussing this issue, larger companies may wish to explore the prospective advantages of establishing payment/collection factories (centralized payables/receivables processing centers). These centralized processing centers can further increase visibility into funding needs and liquidity management as well as tighten control over payment timing. However, corporates should not allow any such centralization initiative to endanger meeting the SEPA-migration deadline of February 1, 2014 – after all SEPA compliance is a regulatory project, while centralization efforts are optional.

Such treasury management decisions must be considered hand-in-hand with format strategy. XML is the designated format for SEPA transactions, and corporates must migrate to it, if they don’t want to rely on (potentially costly) conversion services offered by a number of global banks and vendors. As many banks now recommend XML as the format for all future transactions (both SEPA and non-SEPA), migration is the obvious choice. Nevertheless, a move to XML may have a significant impact on corporates’ enterprise resource planning (ERP) systems and connectivity because not only must XML be a supported output format, but these files also tend to be much larger than their domestic or global equivalents. Any transition should, therefore, follow a detailed consultation process, as well as be well-timed and managed both internally and with external systems providers.

And preparation complexities do not end here. International Bank Account Number (IBAN) and Bank Identifier (BIC) codes are the sole permissible account identifiers for SEPA transactions, and the issue of how to obtain and manage them is more complex than may be expected. This is especially the case for companies that operate in a number of European countries, as the procedure for obtaining these codes will vary between countries. While there are also vendor solutions available, these tend to be more expensive. In either case, some manual effort may be unavoidable. Once obtained, it must also be ensured that the relevant systems (such as ERP or HR systems) are able to accept/process IBAN and BIC. In some cases, this may require a new release/an upgrade of the system.

It should also be considered that under SEPA, the payment detail field is only 140 characters long, and many corporates will not be accustomed to such brevity. The majority tend to favour more detailed payment instructions because they pay numerous invoices simultaneously, and greater detail helps to avoid any potential confusion. If corporates are to break such well-established payments patterns, they must either be adjusted – by being broken down into more than one payment, for example – or corporates must find ways to make the information they provide more concise or available outside of the payment message.

And finally, for corporates using direct debits today, there are even more required steps when preparing for the migration to the SEPA direct debit.

Meeting these requirements

As the examples above show, migrating to SEPA is a significant undertaking, and the scope of the project should not be underestimated. If corporate SEPA teams are to see that their organizations meet the compulsory compliance requirements in time, their best course of action is to work with a partner bank with the necessary expertise to ensure that corporates take the best route to migration, and the capabilities to ease the burden of compliance. The partner bank should also have a solid SEPA strategy and be in a position to offer a range of value-add services designed to optimize payments processes before and after SEPA migration.

SEPA is no longer an optional initiative. It is now mandatory, which makes it a top priority. With the compliance deadline in sight, corporates must begin preparations immediately if they are to be in ready in time. In most instances, their first port of call should be a partner bank with the necessary expertise, capability and SEPA-strategy to pave the way for a smooth and optimal migration.

As a leading global transaction banking service provider and proponent of the payments innovation opportunities the euro presents, Deutsche Bank has been a prominent player in promoting corporate interests across the banking industry in the run up to SEPA. We have been actively involved in the development of the initiative at all levels, from participation in regulatory debates to driving technology innovation. In order to help corporates fully migrate in time for the deadline we advocate – and have so done since 2007 – what we call a “4-Pillar” implementation strategy that aims to provide immediate, tangible financial benefits, data format flexibility, account flexibility, and access to value-added services designed to maximize the benefits of SEPA. The high level of flexibility inherent to our approach (there is no need to open dedicated SEPA accounts – instead all SEPA transactions can be initiated from existing accounts kept at Deutsche Bank branches in the eurozone – and a single format can be used for transactions worldwide) is so convincing that our four pillars have since been endorsed and adopted by the market in general. In addition, as another sign of Deutsche Bank’s SEPA leadership, the Bank has made noteworthy, ongoing investment in an automated and scalable SEPA engine to deal with increasing payment flows. This reflects our belief in the long-term value of turning a fragmented market into a borderless payments zone, and is evidence of our long-standing commitment to the success of the single currency and development of the SEPA project.



The countdown begins



SEPA may have got off to a slow start, but the end-date announcement means that the project is now running at full speed. All corporates operating throughout the 32 SEPA countries will be affected by the coming changes and many – especially mid-tier and pan-regional companies operating in the eurozone countries – will find that a successful SEPA migration project requires a considerable amount of preparation. As the deadline is in sight, companies must act now and should immediately enlist the support and guidance of a suitable banking partner in order to begin preparations. As a trusted partner to many European corporates – both large and small – Deutsche Bank has developed a unique approach to SEPA migration that minimizes effort while maximizing benefits before and after the transition takes place. Not only does this lighten the load for corporates and provides a number of immediate and longer-term efficiency gains, it also contributes to future payment technology innovation and development for the countless users and beneficiaries of payment services throughout Europe. With the help of your trusted banking partner, you can achieve a lot more than mere SEPA compliance.

Executive summary: The SEPA journey so far

SEPA is a politically driven European payments harmonization initiative designed to turn fragmented national markets into a borderless-payments zone in which there are no differences between national and intra-European euro payments.

SEPA consists of 32 countries – all 27 EU member states (including 10 non-euro countries), the remaining countries of the European Economic Area (EEA), and Switzerland and Monaco.

Key dates

- 1999: Introduction of the euro
- 2000: EU's Financial Services Action Plan to create a single market for financial services (included the demand for a single payments market)
- 2002: Launch of the SEPA initiative by the European banking sector
- 2008: launch of the SEPA credit transfer
- 2009: launch of SEPA direct debit
- 2014: February 1, deadline for mandatory migration to SEPA credit transfer and SEPA direct debit

Executive summary: SEPA credit transfer and SEPA direct debit

Corporates must be using the SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD), instead of existing non-urgent mass credit transfers and direct debits, by February 1, 2014.

SCT enables payment service providers to offer a basic credit transfer service in euro throughout the eurozone whether for single or bulk payments. Users benefit in terms of functionality, cost effectiveness, ease of use and processing efficiency.

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