

SEPA: Launch of the SCT & New Year Challenges

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This article outlines the progress made so far by the European banking industry towards creating SEPA, as well as the challenges that corporates and banks face this year in their preparation and implementation of the initiative.

In 2007, the European banking industry made great strides towards realising the ambition of the single euro payments area (SEPA). The banking community finalised the rulebook for the SEPA Credit Transfer (SCT) instrument as well as the frameworks for clearing and cards - a significant achievement considering the number of stakeholders involved in the decision-making process. Many banks have already signed the adherence agreement issued by the European Payments Council (EPC), which confirms that they comply with the SCT Rulebook and will be taking part in this SEPA scheme.

In addition, more than 4,000 financial institutions are currently reachable for SEPA. This means that they will be able to receive and send euro payments within the eurozone, either directly or indirectly through intermediary banks, or through links between infrastructures. Although the industry has not yet achieved 100% reachability - a critical success factor in SEPA's realisation - we are getting closer.

A lot of progress was made last year but we must not underestimate the hard work that is still needed. In 2008, both banks and corporates face ongoing challenges in their preparation and strategy for SEPA.

Corporate Preparation in 2008

At the start of 2008, many corporates may be experiencing an overload of SEPA information which can be confusing. The information that corporates really want is about the impact SEPA will have on their business and guidelines on how to prepare for the initiative. Banks can provide assistance in this task based on their involvement with the EPC and, at the Commission level, in agreeing and formulating the SEPA rulebooks and schemes. For example, ING has developed the SEPA Scan - a tool that can assess the specific impact of SEPA on a corporate by taking into account factors including geographical scope and account structure.

This type of guidance can help companies understand how their business will be affected by SEPA, such as the effect on treasury and working capital management, payments administration, account structure, transaction characteristics, reporting, payment products and the financial supply chain. This type of analysis is even more important now with the introduction of the SCT this week. (See box below for advice on how to prepare for the SCT.)

The SCT will enable companies to start using more efficient and cost-effective infrastructures and it will harmonise service levels regarding execution cut-off times, validation and return handling. While the SCT offers corporates new advantages, it is also important to note that in order for the SCT to be

a real success - and to create a resilient and robust system - it is critical that public institutions show their support by adopting the SCT.

What Do Corporates Need to Do to Receive and Issue SCTs?

- Analyse the impact and opportunities arising from SEPA:
 - Take into account all elements of the financial supply chain, i.e. business and operational processes, working capital management, payments, cash management and risk mitigation.
 - Re-engineer existing inefficient processes (e.g. cash and cheques).
 - Use of one single channel and one single IT system in various countries.
- Prepare the organisation for SEPA at all levels: set up projects, allocate a budget and project team, etc.
- Collect and store IBANs and BICs from all business relations.
- Adapt ERP/cash management systems for IBAN/BIC usage and international message formats, especially XML.
- Ensure that existing banking communication channels are capable of handling SEPA transactions; if not, select a SEPA-compliant channel.

Fundamentally, when it comes to SEPA, all corporates must decide whether they want to be a fast mover or slow follower by weighing up the benefits and investment necessary. For example, if you are a domestic based mid-sized corporate, processing capital goods that are distributed in a range of 50km around your office, it might not be in your favour to rush towards SEPA. If you are a pension fund with 12 million pensioners living across eight different countries in Europe, however, SEPA could provide some immediate benefits and therefore an implementation plan should be considered at the earliest opportunity.

While each corporate will have their own timeframe for SEPA - regardless of the type of business it operates or how it is organised - SEPA will provide new opportunities, such as the potential to centralise treasury activities, rationalise banking operations and accounts, and harmonise credit transfers. It is therefore important that all corporates put SEPA onto their IT agenda as a priority and consider this initiative within their overall investment cycles and ERP upgrades, for instance.

Banks Strategies for 2008

Banks also face many challenges this year. First of all, they have to be ready and reachable for the SCT and they also have to encourage and drive market interest. For example, ING is reachable in all SEPA countries but our offering is market driven by demand and where we can make a return on our investment in IT and technical implementation, such as Germany, the Netherlands, Belgium, Luxembourg and France. Banks must consider how to create market interest in SEPA to ensure the volume needed for their business case and SEPA implementation plans. They must also ensure that the migration period - when SEPA and legacy instruments co-exist - is as short as possible. Indeed, a major strategic challenge for banks this year will be to motivate end users to adopt SEPA and the new payments instruments, beginning with the SCT.

Many banks will also be considering whether to outsource their payments processing operations due to investment constraints. While making the decision to outsource should be straightforward; choosing a suitable strategic sourcing partner and developing that partnership is much more complicated. Payments are a core business process interlinked with numerous operations and, as a result, it cannot easily be detached for outsourcing. This makes implementation of the outsourcing partnership a complex prospect, which needs to be managed carefully.

It is therefore imperative that banks choose the right partner based on its capabilities as well as its understanding of their business. For instance, insourcing banks must be able to provide straightforward clearing connectivity and the ability to process SEPA transactions. They also need to understand how to adapt to the existing business architecture and impact of outsourcing on legacy systems and instruments. Banks need to consider their outsourcing options carefully and SEPA will provide the opportunity to outsource in a more effective way.

SDD - A Work in Progress

While the SCT is ready for implementation this week, the industry must wait another 20 months for the introduction of the SEPA Direct Debit (SDD). This will have a substantial effect not only on SEPA-related transactions but also the legacy environment and is therefore another challenge for the industry in 2008.

In terms of the SDD, risk mitigation issues still need to be clarified as well as analysis of the competitiveness of the SDD compared to existing domestic solutions. The industry must work hard to resolve these issues so that corporate clients fully understand what it entails from an operational and risk perspective. Currently, the rulebooks outline the standards but not how the SDD is going to work in practice.

While the SCT is comparable to existing national schemes, many domestic direct debit schemes are already efficient and cost-effective, which will hinder corporate adoption of the SDD in its current form. In addition, without the Payments Services Directive (PSD) to provide the legal basis for the SDD, there are inherent risks involved in its operation. The PSD is currently being transposed into law within all EU member states.

In light of these outstanding issues, there is a chance that the SDD will not be able to support the political ambitions of SEPA (i.e. provide instruments that are more effective and less expensive than current domestic systems). At this stage, the industry should carry out some in-depth market research into the real need for a SDD to make sure we make the right decision going forward. For example, I believe we should not only focus our efforts on SDD but also put resources into building systems for e-payments over the Internet and bill presentment, in order to create real value for the end-user.

Conclusion

The industry has made great progress in creating the platform to start launching the new SEPA instruments and services, but success is now dependent on user adoption and how they work in practice. We must ensure that the SEPA formats and instruments are not distorted by local

interpretation to accommodate existing business practices. Indeed, the first test for the SCT is to see whether it can remain a pan-European standard across all countries without domestic variations emerging. The PSD is vital in ensuring standardisation and so its transposition across the EU is a clear priority over the next 12 months.