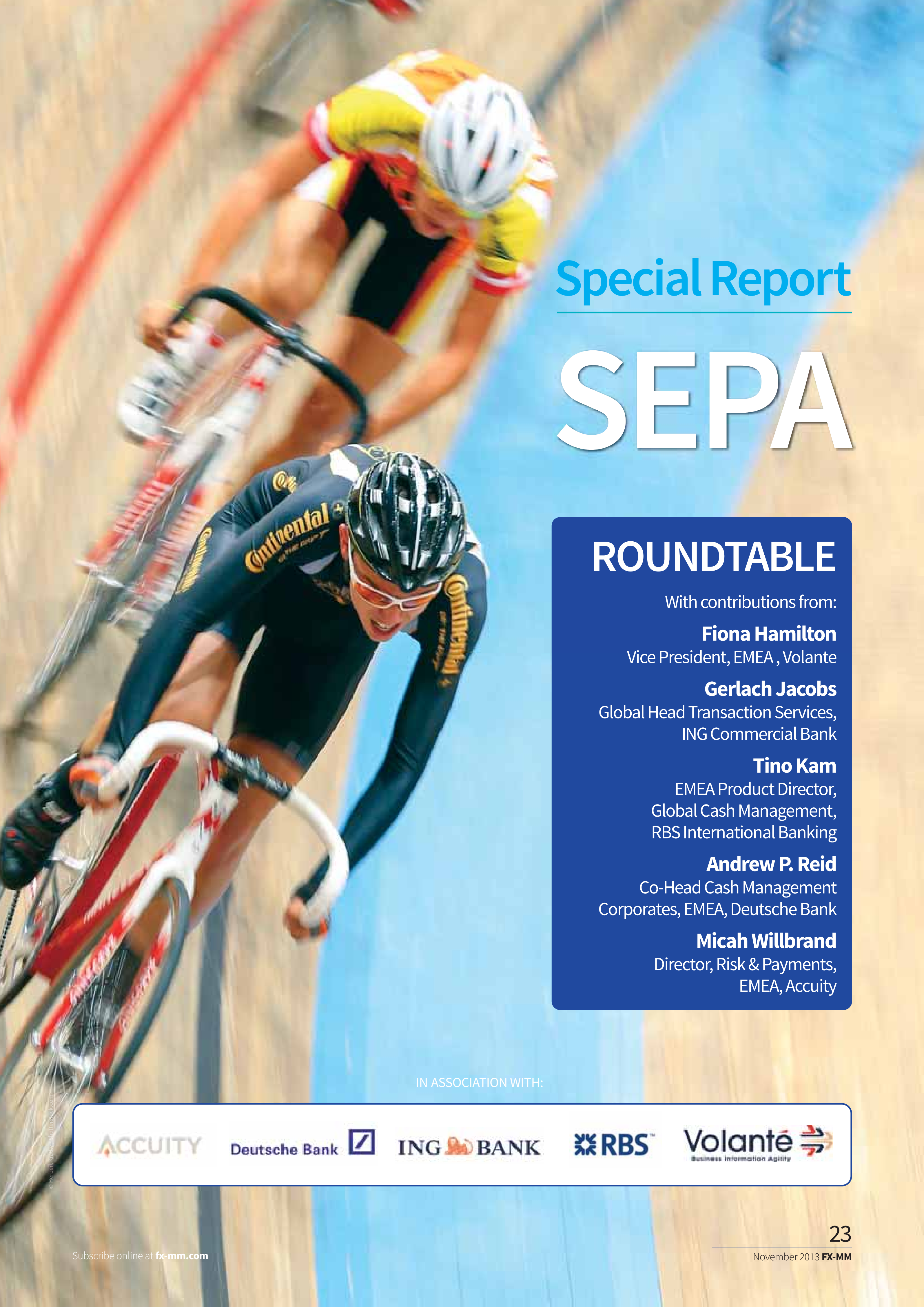

Special Report

SEPA

ROUNDTABLE

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IN ASSOCIATION WITH:

ACCUITY · Deutsche Bank · ING BANK · RBS · Volanté Business Information Agility

SEPA:
The final push

The Panel

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We are now counting down to the SEPA migration deadline in weeks if not days, but certainly no longer months. In this special roundtable report, five industry experts give their views on what is required to meet the 1st February 2014 cut-off, and explain why it is also important to think longer-term about SEPA.

FX-MM: Can corporates still meet the SEPA deadline?

MW (Accuity): They absolutely can, however we are approaching the tipping point in terms of achieving a full, real-time integration. Doing the conversion from legacy BBAN to IBAN is a one-time event which can be done relatively quickly, but for ongoing BIC pairing and payment processing for example, the deadline is getting very close. As such, those companies that haven't yet begun their SEPA journey are likely to need some external help sooner rather than later, and should also be ready to carry out some additional work after the migration deadline.

Of course there will be some companies who cannot meet the deadline, or are actively planning not to meet it. They will require manual processes to be in place in order for payments to still be made. Another 'Plan B' that we are hearing more and more about is process-ing debit payments via the SEPA credit system, as most companies are compliant with SCTs, but not SDDs. Again, this isn't ideal, but it is a workaround for the time being.

GJ (ING): While many larger multinational corporations have already achieved considerable progress in their SCT migration plans, there is still a great deal of work to be done on SDD. Domestic businesses, or smaller companies with operations in a limited number of countries, often still have the bulk of the migration project ahead of them. When it comes to the actual implementation, companies must now experience what SEPA will mean for them in practical terms. Good reporting and reconciliation will be key for multinational corporations.

AR (Deutsche Bank): Yes – but only with the right guidance and operational support. Corporates have varied significantly in their approach to SEPA compliance – with many of the larger multinational companies being well ahead of their smaller counterparts in terms of preparation – but there is still time even for those that remain in the planning stages for minimum-level compliance. Time pressures will, of course, create some challenges. Rising competition for SEPA resources may be an issue, and the year-end technology freezes common to many companies are likely to complicate testing. Despite this, the deadline can be met – as indeed it must be, given that SEPA is now a mandatory (rather than optional) initiative.

TK (RBS): Yes, of course. Paying out will not be a problem and can be straightforward: most banks have a SEPA-compliant internet banking solution that supports initiating single SCT payments or uploading batches of SCTs. Corporates just need to make sure that they have the correct IBAN number for their creditors. Generally, receiving will also not be a problem since a corporate's bank can accept any SEPA payments coming in, although corporates might need to review whether their Accounts Receivable (AR) reconciliation processes need adjustments.

More challenging, however, will be collections through Direct Debits. Migrating to SEPA Direct Debits (SDD) is a more complex process for corporates: they need to ensure that they can migrate their existing direct debit mandates and also have a mandate management administration to support the full life cycle of the collection.

Additionally, SDD service levels will likely differ from legacy direct debits For example, there may be different cut-off times or different return messages flows. And with less than three months to go, my bet is that corporates might need a contingency plan, or "Plan C", to meet the SEPA deadline of February 1st 2014.

Implementing a Plan C can be quite straightforward as well, such as collecting receivables through other means such as invoiced-based collections rather than through SDDs. Alternatively, if this is not possible, there are other solutions such as the RBS SEPA Accelerator, which can convert legacy credit transfers and direct debit file formats into a compliant SEPA ISO XML file.

FH (Volante): Yes, I think corporates can meet the SEPA deadline; but it's a conditional 'yes'. Corporates have two options if they wish to be compliant by the February deadline. Some may be able to leverage their existing vendor supplied payments and treasury systems' SEPA solutions where they exist; however, not all suppliers are ready and in some cases, the corporate may have in-house developed solutions where this is not an option. For corporates in these latter categories, re-engineering will be required and if an organisation is planning to 'hand code' SEPA compliance and they didn't start some time ago, then the chance of achieving their goal, from my experience, is very slim indeed.

For larger corporates which, for example, are already connected to their banking channels either via SWIFT FIN or using those message formats in a bilateral communication with their payment banks, then there is obviously the quick win of engaging with vendors who support off-the-shelf mappings between SWIFT MT messages and SEPA payments initiation and ISO 20022 cash management messages. Naturally, there are nuances involved with every bank channel, but much more than 90% can be implemented off-the-shelf. For those using pre-existing proprietary formats, then the route is more challenging and using rapid development tools will certainly give them an advantage over hand coding.

The other contributing factor to the conditional 'yes' is that corporates will have to be able to accelerate their selection and procurement process for taking on enabling technology. A standard four month Proof of Concept followed by three months of commercial negotiation is clearly going to be prohibitive. Indeed, commercial flexibility on the part of vendors is also a requirement as the corporate need software is now, so vendors should be delivering in good faith to IT teams to enable them to start projects.

Of course there will be some companies who cannot meet the deadline, or are actively planning not to meet it. They will require manual processes to be in place in order for payments to still be made

FX-MM: How important is industry collaboration in helping the 'final push' towards SEPA compliance? And in what ways are banks, vendors and corporates working together?

AR (Deutsche Bank): Regulatory change always necessitates a collective response, and SEPA is a call to action to the treasury community as a whole – banks, corporates and payment services providers alike. SEPA's ultimate goal – to improve the efficiency of cross-border payments and turn the fragmented national markets for euro payments into a single domestic market – can only come to fruition if all play their part in reaching stage one of compliance. Making this happen requires not just individual effort from banks, corporates and third-party vendors, but also a coordinated response – particularly where grey areas (such as the migration to the XML payment format) remain.

So, first things first: all must do their bit individually. Banks must ensure they are compliant and in a position to help their corporate clients meet the deadline. Corporates, for their part, must supply their banks with the required account identifier codes (IBAN and BIC) – enlisting third-party help if necessary – and migrate to the SEPA payment formats, while vendors must be prepared to offer additional support in the face of heightened demand and time constraints.

Once these individual elements are in play, wider communication and cooperation – particularly between banks and corporates – is vital. To give an example, uniformity between banks can be a real challenge with respect to XML. At present, there are multiple versions of XML in use that have slightly different definitions, as well as localised variations across the Eurozone. Corporates need to work with their banks to ensure consistency here.

Corporates and banks also need to work closely together in terms of testing SEPA preparations to ensure a seamless transition come February 1st.

Migrating to SEPA Direct Debits (SDD) is a more complex process for corporates: they need to ensure that they can migrate their existing direct debit mandates and also have a mandate management administration to support the full life cycle of the collection

GJ (ING): Working together is very important indeed. The impact on your company if you fail to migrate by the deadline could be substantial. If critical payments fail, treasury settlements, interest payments, salaries and supplier payments, the financial and reputational damage will be substantial. The same applies if your customers have not migrated and therefore your collections are interrupted. A core responsibility of treasurers and finance managers is to manage risk, and the impending SEPA deadline represents not only a significant compliance risk, but also a major financial risk. It is not an optional project, it is mandatory and it must happen now.

In the Netherlands, we have a weekly meeting with corporates to discuss and tackle issues. What we see in the market is that software vendors don't participate in these discussions. In some cases they are late to modify the accounting software in line with the new SEPA standards, especially in the SME market. The financial authorities are pushing banks to migrate their clients in time, but it will be a joint effort to reach the deadline.

FH (Volante): At this late stage, it depends on the definition of 'industry collaboration' – I think the time is long gone for big initiatives and conference seminars or workshops. We are now in the realm of 'just get on with it'. However, if we mean corporates working with their banking channels and both entities in turn with their respective IT and vendors, then of course; without communication and the ethos of working towards a common goal they may be little success.

Where I see the role of greater collaboration on a bigger scale, is post the February deadline. After all, there is a subsequent 2016 deadline for non-Eurozone countries and we should hope the same mistakes are not repeated in that migration.

TK (RBS): I believe that the industry has been collaborating already. Nevertheless, corporates should still ask themselves if they have a Plan C and who can help them with that. Each corporate will have different needs and there is no silver bullet, but, at least with the right contingency planning, a company could still continue to pay its employees, while also collecting receivables and managing working capital.

We have been working with SAP and major corporates to implement an off-the-shelf SEPA-compliant ERP solution that connects seamlessly with banks through a CGI ISO 20022 XML interface. The second example is our RBS SEPA Accelerator proposition developed with CGI. This suite of conversion tools is designed to help corporates become compliant in time for the February deadline, by converting legacy credit transfers and direct debit file formats into a compliant SEPA ISO XML file.

MW (Accuity): Collaboration is key – both from a platform and a data perspective. From an Accuity point of view, it's important for us to work with the payment processing companies, as well as the banks to enable corporates to become compliant. With financial institutions, what Accuity does is to work alongside them to ensure best practice on the BBAN to IBAN conversions, and also to assist with client advisory. This arrangement has been working really well from all perspectives and the corporates in particular have found it useful to have their relationship banks helping them through their SEPA projects.

From a processing point of view, we are working closely with the payment processors who send us the relevant information in real-time to achieve the appropriate BIC pairing for the IBAN.

FX-MM: How will the industry cope with the 'big bang' effect as everyone rushes to comply?

MW (Accuity): Despite the hype, I think the vendors and banks are well prepared with additional resources. On the BBAN to IBAN conversion, we are seeing a really dramatic take off – not only because of the nearing migration date but also since Germany now has its conversions finalised. As such, our teams are really gearing up for the project and people are putting their holidays (and wedding in one case) on hold until after the migration date!

AR (Deutsche Bank): The industry has long-anticipated a last-minute rush and many of the large payment banks, such as ourselves here at Deutsche Bank, have special taskforces in place to cope with the inevitable uptick in demand for SEPA migration and support. That said, a mass rush will not be without challenges, and corporates must factor this in. For example, the availability of external technology support services could be hampered by the sheer number of corporates seeking to become SEPA-compliant at the same time, and this in turn may lead to quality concerns and/or a service shortage. From an in-house perspective, there is a concern that corporates' IT staff and resources may buckle under the strain once companies begin to test – and subsequently fine-tune – their codes and workflow systems.

GJ (ING): The preparations for SEPA began as far back as 2004 and some 5,000 banks are changing their systems for the benefit of billions of customers and themselves. It's a gigantic operation, which fortunately is going well for ING. There is an ongoing push towards migration, but undoubtedly, given the timescales involved, many companies will need to use conversion services offered by their bank or a third party.

The quality and reliability of these services is very variable, from back-up or stop-gap solutions through to long-term, high-quality services. However, there are still cost and resource implications to implementing these services and treasurers need to take every measure possible to prevent interruption or failure in their payments and collections systems and processes.

TK (RBS): This is a challenge that the industry together has faced. But in terms of RBS mitigating this risk, we have been diligently engaging with our corporate clients to support their Plan A – which is to ensure they are SEPA-compliant before the February deadline. As such, we have scaled up our implementation teams and system capacity.

FH (Volante): I think the major threat will come from resourcing requirements up to the deadline; both within end user organisations and also within the vendor, consultancy and system integrator communities. There is a fixed resource pool, particularly when it comes to experts in the field and the consequences of a late surge in attempts to be compliant, will be limited availability and increased resource charges. This per se is not a negative opinion about big bang approaches in general, but about the market always leaving it to the last minute. SEPA is no different to CREST (UK Equities settlement) in the 90s or Dodd-Frank last year.

The lack of resourcing will also be exasperated by the normal approach to tight deadlines which is to cut testing time. Inevitably operational resourcing is going to be a challenge after go-live, not only for those that are non-compliant but also for those that have implemented solutions which have been inadequately tested or referenced beforehand, because they have been tested elsewhere.

A standard four month Proof of Concept followed by three months of commercial negotiation is clearly going to be prohibitive. Indeed, commercial flexibility on the part of vendors is also a requirement as the corporate need software is now, so vendors should be delivering in good faith to IT teams to enable them to start projects

FX-MM: Are out-of-the-box SEPA solutions just a short-term fix or do they have longer term value for corporates?

AR (Deutsche Bank): At best, conversion services can relieve some of the time pressure and make migration more manageable in the short-term – though more so for small-medium enterprises than larger players with pan-regional operations (and therefore more complex payments processes). Additionally, these services are more tailored to corporates seeking to address credit transfer related migration preparations versus those looking to plan towards direct debit migration related programmes (where more extensive work is required within organisations to plan and prepare for Feb 2014).

In the long run, such services are no substitute for adequate investment and proper planning. As budgets tighten across the board, investment spend is undeniably harder to come by, but a lack of investment – from both corporates and banks – could well become a longer-term industry risk. Hence, making the right strategic choice internally and with regards to SEPA banking partners is of critical importance.

The impact on your company if you fail to migrate by the deadline could be substantial. If critical payments fail, treasury settlements, interest payments, salaries and supplier payments, the financial and reputational damage will be substantial. The same applies if your customers have not migrated and therefore your collections are interrupted

TK (RBS): Our SEPA Accelerator conversion solution is not a strategic solution per se, since we firmly believe that the XML solution (ie, originating XML SEPA-compliant files rather than converting legacy formatted files into XML) will provide the greatest benefits to our clients: a non-proprietary, standard interface and harmonised solution across all banks. Therefore the sooner they migrate to ISO XML, the better it will be for them.

GJ (ING): For now, SEPA and the migration to it appear to be a lot of effort for all parties involved with sometimes seemingly few benefits. It is a requirement for companies doing business in Europe to be SEPA-compliant, but it ultimately brings substantial opportunities to simplify and harmonise cash management in Europe, to standardise formats and further centralise and automate cash management, payments and collections. We are convinced that for banks and corporates in the longer term these benefits lie in improved cash management throughout Europe, making it more efficient with standardised processes and the reduction of costs.

FH (Volante): It might be deemed disingenuous not to admit that my view is somewhat biased. However; I firmly believe that externalising the support of both existing message standards such as SEPA and whatever may come after it, has huge benefits in insulating organisations against the costs associated with the inevitable changes in the regulatory and message standards development world. Change is a given, it won't stop at SEPA so why should systems and internal IT have to be re-engineered when in the majority of the cases, the transaction is the same; it is just how it is communicated that changes?

MW (Accuity): Speaking a little more generally, we don't see SEPA as a Y2K event. We see it as part of a longer-term movement within the payments industry to become more structured. IBANs are also now being taken up by countries outside of the SEPA zone, in Latin America and Asia in particular. So, think of it in terms of overhauling a logistics supply chain. Just as parcels and shipments can now be tracked at every stage of their journey, with SEPA and FACTA, the same will eventually be true of payments.

As such, corporates will no longer be dependent on banks as to how and when payments are made. They will be able to instruct banks as to which payment method they wish to use, in which timeframe and so on. In turn, this will lead to more efficient cash management.

FX-MM: What is your top tip for those corporates struggling to meet the deadline?

GJ (ING): For clients that cannot finalise their SEPA migration project before 1st February 2014, they will need to use conversion services offered by their bank or a third party. Some treasurers may believe – or hope – that the deadline may be postponed. It will not. As the European Payments Council (EPC) has stressed repeatedly: there is no Plan B, only Plan A.

AR (Deutsche Bank): Companies struggling to meet the deadline need not struggle alone – they must seek appropriate support and seek it quickly. It may that some companies absolutely require third-party vendor services as a stop-gap, and they should look to procure those services as soon as possible – but only once they have sought guidance with respect to the services most appropriate for their individual needs, and the correct questions to ask. It is for this reason we prepared a comprehensive user guide for our clients, titled the 'Ultimate Guide to SEPA Migration', which helps document and detail a number of these areas.

MW (Accuity): The first piece of advice is to convert your BBANS to IBANs if you haven't already. It's a simple process and there's no reason why you should hold off on that. Once that's accomplished, speak with your bank to work out a SEPA plan – and be open and honest about how much work you have (or have not) done towards SEPA compliance. This is especially important for small corporations who always bear the brunt of regulatory change.

Ultimately, SEPA is here to stay. What is more, it brings significant opportunities for change, so rather than ignore it, try to embrace it.

TK (RBS): In brief, understand your risks and how to mitigate them, plus have a contingency plan, or Plan C.

FH (Volante): Very simple, "get on with it". Time to cut the red wire or the yellow one as they do on the big screen! The luxury of time is over make your decision on compliance right now.

FX-MM: What does 'life after SEPA' look like?

TK (RBS): We are excited about the true benefits that SEPA can reap for corporates, namely: operational efficiencies through centralisation and harmonisation of payment processes; and simplifying complexity by reducing the number of accounts. SEPA will enable you to achieve these benefits! Start now with planning your roadmap past Feb 2014.

FH (Volante): I would say the deadline for non-Eurozone in 2016 is what comes next; indeed, the second wave could be even more challenging from an educational point of view. How the rest of Europe, such as the UK, not to mention the rest of the world, starts the process for sending SEPA compliant EUR payments by that deadline is unclear.

Beyond that, it's even more blurred but, change is inevitable and it's worth remembering that the US domestic payments systems haven't changed for a long time and we cannot know the extent that extraterritorial impact changes will have on that jurisdiction for corporates if and when these systems migrate to ISO 20022.

GJ (ING): The focus for ING is to be a business partner that our clients can rely on; working on our international offering and the way we advise and service our clients. We still can derive opportunities by making things easier for our customers; simplifying and harmonising our international offering and adding value by looking for integrated solutions in liquidity, trade and payments. In that way, we are focusing on helping our clients to optimise the effectiveness of their working capital management through SEPA.

MW (Accuity): Life after SEPA for corporates will vary. For those who will not be ready on time, they will face multiple challenges. Primarily, they will miss the benefits associated with a standardised Pan-European payment system, but they will also subject themselves to significant business risk, as they may not be able to process payments or collections and might end up with less efficient processes than their existing ones. In addition, corporates may be subjected to additional bank charges for not providing the correct SEPA payment formatting which will add further monetary risks.

For those corporates who meet the SEPA deadline, the benefits will be visible. The most visible is faster settlement times for country to country payments as SEPA will standardise the payment execution process across the region. Corporates will also enjoy additional cost savings, as SEPA will bring increased transparency of banking fees and a new level of competition amongst banking institutions for corporates' business. Finally, better master data management processes due to standardisation of data required to make payment transactions.

AR (Deutsche Bank): SEPA is a question of 'must' and 'could'. By February 1st 2014, corporates must have the basic SCT and SDD requirements in place. But with the right support, SEPA can be a catalyst for transformative change. SEPA, for many, is already being used as a catalyst for a number of positive changes, for a broad range of re-engineering processes – such as the establishment of payment and collection factories and introduction of simplified account structures – that can create significant cost and efficiency gains.

SEPA has the potential to drive innovation that could, in turn, lead to the fundamental reorganisation of corporate treasury, cash and liquidity management processes – with resulting benefits being rolled-out far beyond the EMEA region, onto a more global horizon. The question we are asking a number of our corporate treasurers is: how far are you looking ahead?

From an in-house perspective, there is a concern that corporates' IT staff and resources may buckle under the strain once companies begin to test - and subsequently finetune - their codes and workflow systems

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