

# SUPPORTING SEPA—TURNING THEORY INTO REALITY

By Michael Guralnick

The introduction of the Euro in 1999 changed the face of banking and finance in Europe. However, it is but one step in the move towards the EMU aim of creating a single financial market that allows the free flow of goods, services, capital and citizens across the continent. The next significant change will be the arrival of SEPA—the Single Euro Payments Area.

By introducing SEPA, the European Payments Council aims to level the playing field between domestic (in-country) and cross-border payments within the Eurozone, such that funds can be transferred as quickly and inexpensively between Euro-denominated countries as a domestic transfer is today.

Much of the debate about SEPA to date has centered on the effect it will have on the banking community in Europe. Nonetheless, there will be direct consequences for Corporates that also demand consideration. Few companies, however, have yet to define a specific SEPA strategy.

Today, many Corporates are re-evaluating their treasury strategy around a number of banks, as well as account and liquidity structures, with the intention of rationalizing the number and structure of accounts and having additional liquidity concentration. Others are focusing more specifically on payments processing and potential efficiency gains from the establishment of shared service centers for the EU countries.

The implementation of SEPA will directly benefit Corporate Treasurers, who are striving towards centralization, rationalization and consolidation of financial flows, while having to balance cost pressures with increasingly stringent regulatory reporting requirements.

The globalization of commerce, as well as advances in technology, are speeding up the flow of information and

transactions across borders and spurring on the drive to connect suppliers and distributors across the supply chain more seamlessly. Corporates require greater financial efficiency, and this is what SEPA will deliver through the harmonization of the payments infrastructure across the Eurozone.

The realization of this new paradigm will require changes across the existing European banking model, which is complex and distributed. And while the ultimate

goal is to deliver a single payments infrastructure for all countries in the Eurozone, SEPA will need to match and improve upon the current high level of intra-country efficiencies offered by the national ACHs for the new infrastructure to drive adoption. The payments landscape will evolve, and the pace and shape of this transition will be dictated by regulation and commercial market forces in equal measure.

Embracing SEPA requires forward planning, some re-organization and process re-engineering. Equally, it requires ongoing monitoring of changes in the industry as market forces encourage rationalization and efficiencies amongst the banks and infrastructure providers. Many companies are still uncertain of the

technology and process changes that they will need to invest in, the number of banking relationships they should retain beyond 2008, and whether the treasury management and payments initiatives they have embarked on will eventually align with this new regulatory framework.

At Citigroup, we are suggesting some fundamentals that Corporates should embrace in preparation for SEPA becoming fully operational. They should embed the collection and use of BICs and IBANs in their sell and buy side processes; they should be engaging their technology partners to assess the impact of SEPA on their ERP platforms. And indeed, we are already working on a num-

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**“SEPA will be the area where citizens, companies and other economic actors will be able to make and receive payments in euros within Europe, whether between or within national boundaries, under the same basic conditions, rights and obligations, regardless of the locations.”**

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*(Source: European Payments Council Roadmap, December 2004)*

ber of systems integration projects with our clients to ensure our solutions integrate seamlessly with the new generation ERP that they are adopting. There is also a need for Corporates to review and consolidate their treasury and account structures and to select the SEPA payment instruments that will help them realize the efficiencies promised and fully integrate their entire financial supply chain.

It is also important that Corporates consult with their customers and suppliers throughout the process to ensure that all their systems and processes are connected efficiently, end-to-end. In this regard, industry initiatives such as TWIST, RosettaNet and SWIFT's MA-CUGs are key to establish market standards that efficiently link Corporates' supply chain to the banking infrastructure. Citigroup is represented on the European Payments Council, and we also participate in the industry initiatives that are working to connect the supply chain, as we believe the inter-operability of standards across the Corporates' supply chain, linking through SWIFTnet to the banking system, is key to helping our clients transition to the new payments paradigm.

Citigroup has a large number of regional and global clients who have already implemented pan-European banking and processing solutions, all of which are aimed at exploiting the benefits of process consolidation, centralization and rationalization. We have helped clients establish regional and global liquidity structures with multi-bank target balancing and pooling to realize efficiencies through consolidation.

We are also working with clients to incorporate new businesses and cross-border entities that have entered the fold through acquisition, and are seeing a trend amongst our clients towards the creation and maintenance of shared service centers which, in addition to reaping the benefits of greater automation and standardization, also positions them well to take advantage of the benefits offered through coming industry standardization—SEPA, TWIST, RosettaNet, MA-CUGs.

Interestingly, our clients already benefit from the efficiencies that SEPA promises in terms of harmonizing how banks process and price domestic and cross-border

payments. As a regional provider of cash management services with a pan-European footprint, we already have a centralized payments gateway to the banking system and treat all Euro-denominated payments as 'domestic'.

There is much industry discussion about whether SEPA will be fully operational by 2008, as indicated by the

European Commission, and questions are being asked about the impact of payments harmonization on profitability for the banking industry. We are anticipating that SEPA will be fully operational by 2008, but that it will operate in parallel with the existing national ACHs for some time to come, as market forces drive rationalization and innovation, melding legacy with the new generation infrastructure that has emerged.

From Citigroup's perspective, the future is bright and full of opportunity. We support an open architecture and embrace SEPA as the future for Europe ... with positive implications

for the payments industry around the world. Corporates, large and small, should be evaluating the opportunities that SEPA will bring to their operation today. In evaluating their banking partnerships, we believe there are merits to working with a partner that has the experience and industry connections to help them shape their strategy for a smooth transition and realize the efficiencies promised, now and in the longer term.



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