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The march of progress



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Sepa came into being in January but there is still much work to be done before the full benefits come through for banks and corporate customers. What are the main threats or opportunities of the developments? What obstacles have to be overcome? Euromoney's debate panel wrestles with the key issues

JL, J&W Associates What are the threats and opportunities from Sepa [the Single Euro Payments Area]?

CH, Lloyds TSB Lloyds has a UK, European-centric corporate base, with cross-border requirements. We've served that through a range of overseas networks, branches and alliance partnerships. We're not on the ground, and that historically has inhibited access to local clearing. Sepa, however, enables us to provide a more holistic European payment solution and compete even more effectively with those banks which operate "in country".

RW, Kimberly Clark I have difficulty in getting information on European bank charges, and that should improve. Sepa should streamline our processes. It makes it possible to move from one bank to another if we're all using the same standards. Any payment message you send, to any bank, will be the same message, the same format. We've decided to go with one bank across Europe, but you'd have the choice to go with one or with a multitude.

SC, ING It is an opportunity to harmonize our back offices into one big Sepa engine and create economies of scale. A European standard will create tremendous potential for innovation. Some banks see consolidation as a threat but this is a sourcing issue. The threat is that Sepa is moving too slowly. The European Central Bank raised the point that the coexistence period will be too long. It could be argued that while the overall business case for Europe is positive, there's not much in it for the banks. We will be impacted by the PSD [Payment Services Directive] on float and revenue, and the 2560 on prices. Prices are coming down and we have to create a healthy payments business model together. But first we must try to reduce this coexistence period.

GT, FMS Everybody agrees that there's a lot to gain for corporates if the Sepa objectives are met. But are they being met? That's the biggest threat. The domestic markets are not moving. Sepa is going painfully slowly. There are still problems domestically because Sepa is not providing the level of satisfaction of some local instruments.

RuW, Citi Sepa is a very good opportunity. We've had interconnectivity with ACHs [automated clearing houses] over the past 15 years or so, while with Sepa there is the possibility to cut off those multiple connections and go through one platform. This will allow us to economize on cost and complexity. Citi is physically present in 22 Sepa countries, and while local capabilities will be maintained, Sepa will become a key solution for the euro markets we are in. From a technical consolidation point of view Sepa is therefore very positive but I agree that the transformation process is too slow. Sepa is trying to move from a fragmented market where we don't have the same tradition of how to make payments, nor the same guarantees or languages, to a harmonized area, which could be compared to the US

Executive summary

- There are opportunities for banks and corporates arising from Sepa but several hurdles remain in the way of its becoming fully operational
- Central bank reporting is one of the key stumbling blocks still to be resolved
- A firm deadline would help to focus the programme's development
- Corporates need clear objectives and to get involved in helping implement the new system

payments market. This is a big cultural shift. I therefore hope there will be a push from European authorities to set an end date by which time euro countries have to decommission credit transfer and direct debit schemes – maybe 2015. Without that we will never have the guarantee that this endeavour will come to full fruition.

SC, ING Without an end date, there's no start date.

GT, FMS We need an end date but also to create the conditions for reaching the objectives. There are lots of independent players, and you can't boss them around. We need to create some mechanism for working together.

SC, ING The project has some fundamental problems. If we agree that without an end date there's no start date, where's our incentive for self-regulation? The project was politically instigated. They did not ask consumers, corporates or banks if it was a good idea.

AR, Deutsche Bank Sepa is an opportunity because it is accelerating trends within corporate cash management through, for example, centralization, standardization and automation. Corporate treasurers are still compelled by the need to increase risk management performance, coupled with finding cost-saving opportunities. Sepa provides the opportunity for structural change within corporates, and can be a catalyst. We see opportunity in the fact that Sepa is no doubt accelerating the consolidation of transaction providers in the market. This is stemming from the fact that margins are being squeezed coupled with the increased costs required to invest into the infrastructure to comply with Sepa. As a result, it is a game of transaction-processing "scale". Banks are re-evaluating the business model to maintain their participation in the transaction-processing space. In many situations, banks are also considering piggybacking off the big transac-



tion-processing banks that have already invested double-digit euro millions to build Sepa payment engines. We're fortunate, we've got critical mass, but this is an opportunity to capitalize further. Sepa will continue to drive consolidation in the market.

CH, Lloyds TSB Lloyds, although not a global bank, sees the same opportunities. We can be the conduit, be the provider for our clients. Will we always provide everything directly? Maybe not. But it's about providing our customers with the most holistic solution which is right for their business. So we both see the opportunities to do that, albeit in slightly different ways – at the end of the day, its all good news for corporates.

JL, J&W Associates How do we achieve the Sepa dream?

GT, FMS Apart from reducing costs and increasing competition in banks, Sepa's biggest promise was the ability to straight-through process the payment cycle from originator to beneficiary and the reconciliation. In December we had the first meeting of the End-to-End Straight-Through Processing Committee; including bankers, corporates, ACH, software vendors, Swift, and the EPC [European Payment Council] working team. It still has to have its mission agreed by EPC. It's a working team that tries to come up with a solution to any problem that may impede end-to-end STP.

RS, Mondri I can't have a single bank account in one country, because I have to do central bank reporting, so I can't get straight-through processing. The European Commission ought to have eliminated central bank reporting. The banks could also have built solutions to this problem but no bank seems to have done so.

RuW, Citi The issue of central bank reporting remains non-harmonized. The legal remit for central bank reporting lies with the central banks. A number of those insist on reports for domestic and cross-border flows by non-residents. This impacts Sepa. For example, in Spain certain payments above €50,000 cannot be sent through the Sepa channel. As a response, some banks in Europe have even decided not to provide Sepa payments for Spain. Unless the Spanish central bank decides to change the reporting rules, Sepa payments above €50,000 will not be possible.

RS, Mondri If one of my subsidiaries in France makes a payment from a French bank account, the bank will do the central bank reporting for me but if that same subsidiary initiates a payment from London, the bank will not look after the central bank reporting for me from London. There should be no difference between whether I originate a payment in France or London.

RuW, Citi The central banks set up the rules. In some cases the recipient has to fill in forms, in other cases the bank does it for them as central bank rules allow that. In some cases you have statistical

sampling (survey based reporting), like in the UK, where there's no impact on the payments process or the client documentation. The Commission has recently suggested that CBR should be abolished by 2012, but they might not win the argument with the national central banks. The abolition of CBR was captured by a PSD article in the past, but eventually deleted from the legislation due to strong pressure from the EU Council, which in turn was heavily lobbied by national central banks. It's a political thing and banks cannot do anything about this.

Obstacles

JL, J&W Associates Let's list Sepa obstacles to be overcome, and suggest how they can be solved and who solves them. Central bank reporting?

GT, FMS The European Central Bank has to solve that.

RW, Kimberly Clark But do they have any power?

RuW, Citi It needs a governmental effort in the European Commission and Council, as opposed to between national central banks and the ECB. Political consensus is necessary before this requirement can be successfully abolished.

GT, FMS There's also the distinction between the resident and non-resident, which goes back to the central bank too.

RuW, Citi You could define 'resident' as 'a citizen of Europe', as opposed to a resident of an individual EU country. You could argue for the principle of 'no borders in payments' to apply to 'no borders in general'. 'Non-resident' should designate a resident outside the EU. This is a very powerful argument.

GT, FMS There's still controversy around direct debit, not only the mandate but the scheme itself. The basic rules are not accepted by a number of communities and corporates.

RS, Mondri Mandate migration from the old to the new has to be automatic, with no re-signing of mandates. I'm happy with the direct debit going out of my bank account, so why should I have to sign a new bit of paper.

SC, ING I understand you want that as a corporate customer, but do you want it as a consumer, as a retail customer, without good risk mitigation?

GT, FMS The mandate is subject to national laws. It's not in the PSD. Every country has to decide for itself. Germany has a problem with consumer protection law. Other countries don't. They simply put an article in the PSD which says that all mandates are still valid. But it depends on which country. It should be dealt with at country level by government.

RS, Mondri Corporates and banks need to lobby national governments.

Participants



Jack Large (JL – chair) is a partner at J&W Associates and is an independent consultant working in cash and treasury management and payment cards. He provides consultancy services and training seminars for financial institutions, payment system companies and multinational corporations.



Gianfranco Tabasso (GT) is CEO of FMS Group, a treasury software and consulting company in Milan. He is chairman of the EACT Payment Commission and coordinator of the Cast projects. He is also a member of the EC Expert Group on e-invoicing and Italian representative in ISO 2022 RMG.



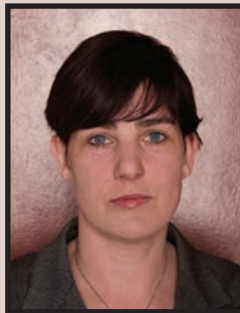
Andrew P Reid (AR) is director, treasury solutions team head, northern Europe, at Deutsche Bank. He has worked for Deutsche for nine years, holding managerial positions in the corporate cash management division. Now located in London, he recently spent two years in New York heading the European cash management sales desk.



Raffi Basmadjian (RB) is deputy treasurer at France Telecom. He started his career 15 years ago in France Telecom's treasury. He is now designing and building the web based, centralized treasury of the FT Group including various processes such as Netting, Payment Factory and CashPooling.



Ruth Wandhöfer (RuW) is a vice-president and the international payments market manager with Citi Global Transaction Services. She was previously closely involved in the work of the European Payments Council in co-authoring the Sepa Credit Transfer scheme rulebook and was an active lobbyist in the successful negotiation of the EU Payment Services Directive.



Rebecca Wilson (RW) is treasury manager, Europe, at Kimberly Clark. She began her career as one of the youngest stockbrokers in the City of London and later moved to accounting. She joined Kimberly Clark in 2002 and moved to treasury in 2003, heading the European cash management team and more recently the global in-house bank. She now focuses on treasury projects.



Sander Cok (SC) is senior strategy consultant with ING Payments and Cash Management. He has 15 years' experience in the payments sector and has represented ING on many projects and committees, most recently EBA, EPC and Sepa migration for Dutch banks.



Richard Smith (RS) joined Mondi in October 2007 as assistant group treasurer. He is responsible for funding and interest rate and foreign exchange risk management. He has more than 12 years' experience in treasury, having previously worked for Carphone Warehouse, TI Automotive, United Utilities and Railtrack.



Colin Hemsley (CH) is head of major corporate & financial institutions sales, corporate banking at Lloyds TSB Corporate Markets. He has over 30 years' experience in cash management and trade finance. He heads a team of cash and trade experts responsible for developing and implementing financial supply chain solutions for banks, larger corporates and financial institutions.



But if, for example, Germany refuses to implement no re-signing, then how do UK corporates lobby the German government?

GT, FMS The Federation of German Industries should be the channel and its role reinforced in Germany. German corporates should participate in the Sepa Migration Plan. At European level they have Business Europe, which includes industry representatives from each country and the EACT [Euro-Associations of Corporate Treasurers].

AR, Deutsche Bank These issues affect customer protection. The existing documentation is suddenly being contravened by a new instrument that provides a different level of customer protection that in some markets, frankly, is not as good as that which is in place today.

JL, J&W Associates UK direct debit is a stronger mandate.

RuW, Citi But domestic law still applies in terms of consumer protection. For example, the UK direct debit guarantee can be continued under the PSD because of the full harmonization article (article 86). The UK Treasury encourages the UK market not to get rid of the life-long guarantee of direct debits. With PSD transposition there will therefore be scope of different applications of refund rules and guarantees in direct debits across member states.

SC, ING The Dutch banking community is insisting on a mandatory risk mitigation section in the rulebooks, which so far is only recommended. Automatic mandate migration is a necessity from the corporate perspective, in order to prevent costly re-signing procedures and risking that they lose their customers who will reconsider the mandate and even the contract. The corporate can then with the original mandate switch in Sepa to a foreign bank and automatically switch to the Sepa direct debit instrument. All good for the corporate. But imagine what this means for the consumer. There is no centrally managed blacklist or fraudulent creditors early warning system whatsoever.

AR, Deutsche Bank If we accept that closing down existing domestic systems is critical for Sepa's success, one of the biggest issues we face in the direct debit discussions is the inclusion of a multilateral exchange charge [MLE]. This is an interchange fee that will be applied for a Sepa pan-European direct debit collection, which will potentially add an additional cost to the clearing of the transaction itself through the PEACH [Pan-European Automated Clearing House]. The incorporation of a handful of euro cents "before" you charge for the processing of the collection itself will mean there is a real risk that you won't be able to provide a cost-effective pan-European price for the heavy direct debit users. This will limit the adoption of the transaction type on a wider basis and prolong the existence of the national clearing systems. Corporates that we are speaking to today

are concerned that this will make decommissioning domestic collections problematic.

GT, FMS In many countries the interbank fees on domestic direct debit are much higher than those proposed for Sepa, and in others they don't exist. But I read in the PSD that the costing mechanism means everyone pays his own expenses. If you apply that to direct debit in theory there is no MLE rate, because I am the issuer and I pay my bank, and the receiver, unlike today, is supposed to pay his bank. It is a bit confusing. Despite the clear statement in the PSD, did they allow the MLE fees in principle?

Call for clarity

RuW, Citi The article referred to here is still ambiguous and we are waiting on clarity as to what is actually mandated. The PSD is a law covering the relationship between a bank or payment service provider and its user. Here we're talking about interchange fees between providers, and although the operational execution time elements are mandated for payment providers, the interchange should not be part of that. The central requirement of the PSD is that the full amount of a payment transaction travels end-to-end. Who recompenses whom within the inter-bank space is confined to the inter-bank space, the latter being outside the scope of the PSD. The rule intends to ensure that the payee (beneficiary) get what he expects.

GT, FMS In Italy, we had a debate which highlighted that creditors prefer to pay the interchange fee so that the debtor does not have to pay his bank for being debited. It was not easy to make debtors accept DD and asking them to pay for it may have a negative effect

AR, Deutsche Bank The card interchange fee is a separate discussion to direct debit. On the card side there are associated guarantees that come with different costs. The interchange at the bank-to-bank level for direct debit is about the perceived transfer of value between creditor and debtor bank. The theory is that you have to compensate the bank being relinquished of funds but we view this as being anti-competitive, in that it is protecting the interests of some domestic banks in some of the European markets and does not represent a level European playing field. We need a harmonized payment fee structure that's consistent and fair and that actively promotes competition within Europe.

RuW, Citi The Regulation 2560/2001 is being currently discussed in the Commission. They are revising this price regulation and consider the inclusion of Sepa payments, to ensure that prices for Sepa payments cannot be more expensive than domestic ones.

GT, FMS We would like the Commission to make a clear statement



like: 'Sepa product should not cost more than a domestic product at the same level of performance.'

RuW, Citi That's what they're doing, including the phrase, 'and should be cheaper'. Pricing is very aggressive in credit transfers. Why shouldn't it happen on our own initiative for direct debits? The interchange fee is an inhibitor, but it is the task of the banking industry to revisit this.

GT, FMS Existing domestic instruments present another obstacle. Some countries will not abandon existing systems to switch to Sepa.

AR, Deutsche Bank This goes into the realms of AOSs [additional optional services] and value-added services.

GT, FMS But we need more functionalities in basic Sepa.

RB, France Telecom If we want to consider Europe as one single space, we need standardization, and homogenization.

GT, FMS We need AOSs to improve the basic scheme. I wouldn't throw away basic Sepa but if it stays as it is, people will not switch.

RW, Kimberly Clark Vendors are not going to accept Sepa in place of a bill of exchange. They want to take that money to the bank and get cash the same day. There is no Sepa instrument for that.

AR, Deutsche Bank Consolidation of accounts down to single type account structures cannot be progressed until these areas have been addressed. How do you compel your Spanish counterpart to receive a new type of instrument if it is not going to deliver the same benefit? It changes the terms of trade, the negotiation, and is a potential barrier to progress.

GT, FMS Unfortunately some of the things that we want to add to Sepa depend on the PSD, and that is almost unchangeable.

RuW, Citi The PSD is in some ways an inhibitor to innovation, because it limits tailor-made solutions for users, as it defines what a user should want. The PSD really focuses on consumer protection.

CH, Lloyds TSB And that's counter-competitive.

RuW, Citi We have legal and technical barriers. We would like more areas to be covered by Sepa and better basic services. There will already be a better service by next year, but if these barriers are not dealt with it is difficult to expand the Sepa menu.

GT, FMS We need an end date linked to a programme agreed between banks and corporates of what needs to be done to improve Sepa. If we do those things before the end date, then banks and corporates will be ready to switch by the end date.

RuW, Citi But the EC and ECB need to push for this.

RW, Kimberly Clark It's not just the decommissioning. It's having the replacement of the same quality.

AR, Deutsche Bank This is where you need structures. Centralization

strategies will perhaps, if not fully mitigate, certainly address some of these things. The sooner we can close down a parallel-running domestic system and enhance Sepa-related systems, the better. Banks will have invested between €5 billion and €9 billion over a five-year horizon just to get enabled. You'll only get the return on investment when you can shut down legacy systems and get the benefit of economies of scale through single-access PEACHes.

The next stage

JL, J&W Associates But Rebecca's not alone when she says she's not going to change unless there's a real reason.

AR, Deutsche Bank But there is a compelling reason. You can look at ACH activity, and ask what can be migrated from 14 systems down to a single system, data set, interchange, format and potentially single account. You can start making steps to consolidate and harmonize databases and systems. There are opportunities for corporates to take big leaps forward in areas of reconciliation and standardization and banks have a responsibility to promote these benefits as well as close the existing gaps.

RW, Kimberly Clark We already have a single system and a single payment interface, and that's not part of Sepa.

AR, Deutsche Bank Yes, but Sepa is standardizing for all the corporates and taking the level of standardization to the next level. It's standardizing a single bank-to-corporate interface and providing a regional format through the ISO 20022 XML. You may be working in a standardized way from a format perspective but Sepa is providing opportunities to also standardize areas impacting reconciliation as well as value dating on a European level. This in turn impacts forecasting processes.

RW, Kimberly Clark We're doing that already, and we also have value dating as well, but we're not using Sepa. You've got to sell this decommissioning of local payment systems to the vendor. You've got to say, 'You're not going to get this payment now 90 days in advance that you know exactly what day that money's going to come in. You're going to just have it Day+1.'

CH, Lloyds TSB But that can only take place where there is a like-for-like mechanism. Where you have a different mechanism, that stays or evolves or merges through corporate activity and preference or bank innovation.

AR, Deutsche Bank The more volumes that migrate onto new Sepa clearing platforms, the greater the impact on the costs of transaction processing and the associated pricing of Sepa and non-Sepa transactions. The more that can be put into PEACH and Step 2 versus local



domestic platforms, the more competitive Sepa becomes.

RW, Kimberly Clark But you're still talking about the multinationals. The SMEs are getting just a few payments and they need the cash. They're not going to move to Sepa unless they can get supply chain finance, discounting or money in their hand.

CH, Lloyds TSB You're right. Evolution into the financial supply chain and integration is the next stage.

RuW, Citi Sepa represents a small part of the capabilities used on a domestic or a global level but it would allow us to reduce ACH connectivity costs over the longer run. However, we might still need to maintain domestic structures, for those instruments not covered by Sepa. The corporates are talking about Sepa version 2, whereas on the inter-bank level we're still struggling with central bank reporting and the other legal requirements. We're not there yet but we might be in three years. It is crucial to maintain a parallel dialogue to see what corporates will need in order to go beyond what Sepa is today. We need a new roadmap, and a forum to discuss this in.

SC, ING We have to deal with the barriers before we can talk about decommissioning. One I'd like to overcome is that we have a domestic service level in terms of cut-off times of the ACH. The easiest way would be if every country had a cut-off time of 15 or 16 hours. Another barrier is that not all public authorities have a fully open tender culture. Banks want to compete with each other to attract these volumes. So please Commission, if you really want a competitive European payments market, facilitate or support the process that all parties have a free and equal starting point. A first step could be making available all the public authorities/administration volumes on which banks have sales efforts or participate in tenders.

RuW, Citi Another element is the customer-to-bank XML harmonized implementation, where countries already decided on specific national permutations, which gets into fragmentation again. This is the reason why this issue is now being addressed by EPC, and there'll hopefully be a harmonized solution soon.

JL, J&W Associates But hasn't it been reserved as a competitive area?

RuW, Citi Initially yes, but EPC had to bring it back into its remit as the impacts on the end-to-end are too crucial.

AR, Deutsche Bank The competitive areas are outside what is fully structured. When you get into areas of ultimate beneficiary fields and defined creditor reference information, those are going to be standardized. The competitive space will be defined by where banks look at different strategies based on customer segmentation.

SC, ING Sepa is about standardization, and standardization is about cooperation, not competition. I prefer there to be clear roles regarding governance. There is a difference between payments service providers

and payment users. Stakeholders have to organize themselves, so that they have a clear voice and a platform for cooperating.

GT, FMS But it's not as easy as for the banks, because we are divided in so many different industries and we are not "regulated". We have never cooperated on system issues like the banks have had to. But SEPA is forcing us to organize. We did get the associations to sit at the same table at the EPC Stakeholder Forum. But that's only a mechanism through which you can inform people. We want to form working groups, and then solutions will come. The EPC can decide whether to accept them but there should be complete visibility.

SC, ING This project seems to have started from the wrong angle. The politicians started it but it would have been better if they had involved you and the consumer organizations, made a plan and then come to the banks. Now the politicians are putting the banks under pressure and we have to cope with that.

Deadline needed

JL, J&W Associates You are learning, but how are you going to make it happen? This could drift on for 10 years.

RuW, Citi The Commission should set this end date. The ECB gave us 2010, which was optimistic. The PSD was delayed, therefore Sepa direct debit is delayed, and hence even the ECB can't maintain 2010 as a full migration date. They'll have to get together to set a new end date. But we'll have to make it clear that we require them to abolish central bank reporting first.

CH, Lloyds TSB Isn't it about creating awareness? When deadlines and objectives have been set, if business is not migrating, the politicians need to ask why it's not working. We need to lobby earlier and explain what we need to do to achieve an accelerated deadline.

RuW, Citi Yes, because it's not our fault that we're not moving. The Commission associates migration with forcing banks to offer Sepa services. We are already providing Sepa, but it's not a one-sided market. Users need to be equally encouraged.

CH, Lloyds TSB It will take longer than that to develop and implement a strategic solution that fully takes advantage of Sepa.

AR, Deutsche Bank There's an expectation that market forces will help. Banks need to become more sophisticated. Don't just sell Sepa as a price-reduction at a transaction-based level, but as an opportunity to do other things. That will create momentum, as will making it easier for corporates to get access. Then, with secondary support and more effective lobbying, working groups of counterparts from corporate, bank and regulatory agencies can unpick more of the practical steps that take away practical restrictions. There are steps that can be taken that will allow corporates to gain economies and

improve risk. How can we accelerate that roadmap to make it beneficial for all? We don't want two systems. It costs more, and corporates want savings as soon as possible without the up-front investments of time and resources.

RB, France Telecom What is costly is not to get the advantage of Sepa as soon as possible. If I don't do anything, I lose money. The easier it is to build things across Europe, the better. This is a cultural shift so I have educational work to do in each country, to have everybody working on a single system through a single channel.

New opportunities

JL, J&W Associates What are these new AOS working capital management opportunities?

AR, Deutsche Bank In among other things, the PSD is defining the treatment of transactions from a value-dating perspective that will deliver corporates with a greater level of transparency. This, by definition will have an impact on forecasting and funding processes at the corporate level. This will allow corporates to look at investment strategies. If corporates can address opportunities to rationalize accounts in a first step, even if it's not a full consolidation, there will already be an impact on the cost and structure of a regional liquidity management model. Sepa is also providing the catalyst for discussions that can be extrapolated into new areas such as the financial supply chain. Within Deutsche we see an opportunity with the convergence of traditional cash management products with traditional trade finance products – all facilitated by internet delivery platforms to deliver integrated order-to-cash or purchase-to-pay solutions.

SC, ING Yes, those corporates will still maintain more than one account. There will be rationalization. There will be pooling and netting. The customer-to-bank interfaces will standardize, and the new standards with the European footprint create enormous potential for further innovation.

JL, J&W Associates This is discipline that the treasury departments have been working on for years.

CH, Lloyds TSB It's accelerating integration. At cash management conferences five years ago, trade elements never featured. But they've started to appear on the agenda. The financial supply chain is a term that encompasses that end-to-end solution, including traditional money transmission, cash payment vehicles and the perhaps more trade-related or longer-term ones like collections. Boundaries are blurring. Through internet technology, banks that have developed independently of their payment systems' documentary solutions are looking to integrate those.

JL, J&W Associates Sepa is a catalyst for things you should've been doing in the first place.

CH, Lloyds TSB There's an element around technology that links back to the standardization that Sepa gives us. Couple that with the internet, which connects you to your client, making it easier to integrate traditional open account, settlement payments and invoicing flows into other traditional products. Banks are able to address this now, because the platform is there.

AR, Deutsche Bank Sepa is also accelerating the wave of best practices. Corporate treasurers are more accountable for financial delivery and need to increasingly demonstrate how they are adding value within corporations. So the more that can be standardized, the freer the time at the treasury level to look at value-adding areas.

JL, J&W Associates What are banks going to provide in additional optional services?

RuW, Citi When you talk about AOS in our context, it sounds more like value-added bank features, which requires much more dialogue with our users. Sepa triggers new ideas, because you get rid of the problems you had in the past. You have one platform and you can keep building on it. But first of all we have to build the basic European infrastructure.

SC, ING What is distinctive is in the corporate to bank channel. But in the collective space, a payment is a payment is a payment, and here the trend is commoditization. This will evolve into something for all of us. The ideas are still the same. It is about the single and bulk and about online payments and about IBAN [International Bank Account Number] and BIC [Bank Identifier Code] services. It is about commoditization, and scale is key.

JL, J&W Associates We're starting to see different players in pan-European ACH services. There's Step 2 from EBA, VocaLink, Equens and others coming through. What is your strategy in these third-party-provider clearing systems? Does it matter which you use?

SC, ING No. This should be completely transparent for a corporate. ING and many other banks are trying to rationalize their clearing infrastructure. We have harmonized our back office. We clear a lot of group payments internally. We send the remaining part to just one provider that has full reach, and when the volumes grow we start to exchange our payments bilaterally.

JL, J&W Associates If Equens and VocaLink become so successful they make bilateral irrelevant, there's going to be interesting competition.

SC, ING We asked the clearing houses if they could offer us a bilateral service but this does not add value. We have about five clearing and settlement mechanisms. Some big local CSMs have domestic volume now. They have a Sepa offering with a good service level in terms of cut-off times, but they do not have the reach, and with the EBA Step 2 it is the other way around. We expect this to come together quickly. When this is a commodity we banks will have a choice, although my impression is that the initiative to link the local CSMs is progressing very slowly.

RuW, Citi We set out the CSM guidelines in the EPC to create competition. At Citibank we use the EBA Step2 service, because it currently has the biggest reach, but we would like to see an evolution, in competitive terms, to end with maybe three PEACHes in Europe.

JL, J&W Associates Does it matter for corporates?

RuW, Citi No, this is an inter-bank decision.

RB, France Telecom It does matter to corporates. Sepa is a costly project for the banks. But banks still seem to be investing. You mentioned using a US model to design the Sepa environment. In the US I don't see as many clearings as there are states. In Europe, we have a French initiative where local clearing houses are investing to have European reach. There's all this investment, while everybody is supposed to be building Sepa to save costs. Somebody is going to have to pay for this, and it's probably going to be me! That's one reason why I care about it. The other is that I need a homogeneous service.

RuW, Citi To become Sepa-compliant, CSMs have to pass on all the information that is sent with a payment. They are not allowed to truncate. It might be that these rules need to be stricter and more detailed. But the long-term objective is harmonization. We should have two or three pan-European clearing houses with clear rules. They would need to be transparent in terms of what they charge.

JL, J&W Associates There are fundamental differences between value add on Equens and on VocaLink compared with Step 2, and there are going to be more.

RuW, Citi That is the idea of having them compete. They will learn from each other.

AR, Deutsche Bank The bank needs to define the service offering and commitments through formalized terms and conditions. Banks will then choose routing through clearing infrastructures depending on the need to fulfil these commitments. The relationship will be bank to customer, the routing will then be the bank's decision, based upon the commitment it's offered regarding cut-off times, value-added transfer of information, etc. I understand the concern but our obligations to a client have to be fulfilled and we've got to take it on our books to do that, rather than the clearing infrastructure supporting this being the competitive space.

CH, Lloyds TSB It's about offering the client the best options and a holistic solution to win more of their cash management business. We'll define the service standards around that but we need the opportunity to put those transactions through the most economical route to offer the client the best service at the best price. We need that competition between providers. It's our job to maintain consistency of service to the client with our service providers. Lloyds go the Step 2 route, but we look at all the options.

RuW, Citi Clearing engines are becoming value-added engines dealing with things that banks could've done. VocaLink provides nice things in one area that maybe Step 2 doesn't, but they're both also increasingly competing with the banks.

More integration

JL, J&W Associates Does it matter where the total service comes from? Holistic is a word that a lot of people have used, and increasingly, there are going to be more integrated services.

RB, France Telecom Competition between banks will not be in the transactional space. It will be in the back office. I am waiting for a global service, and I don't care if it is coming directly from the bank. What makes the difference is the bank's responsiveness, the capacity of back offices. At the multinational level the cut-off times you can get from the banks, the footprint, the capacity to deliver a retail service, all these will make us choose one bank instead of another. But thanks to Sepa I'm not thinking country-by-country any more. Germany and France should become a single market so I should get a homogeneous level of service. I should be able to work in all of those markets with the same banks. I don't want Citibank in France, and Lloyds in the UK.

RW, Kimberly Clark I agree. With Sepa we should only need one account with one bank in one of those European countries. The service that bank provides could be made up of a combination of services from them and other banks. It depends on the corporate footprint within Europe.

RB, France Telecom But we are not sure if having one bank account at one bank is a dream or a nightmare. You want to maintain competition. That's one incentive that pushes the banks to make their customers happy.

CH, Lloyds TSB I'm sceptical about whether one account is the best solution. We'll see some rationalization of relationships, but not wholesale.

RS, Mondy In a perfect world I would like my ability to make payments to be bank-independent. I could even have systems through which I could auction my banking business off every day to the low-

est bidder. But in practice that means I have to become an expert on everything to do with payments. So instead I have a lead bank so that I can leverage off the expertise which that bank can give me.

JL, J&W Associates What are the three things you'd advise a corporate to adopt within their five-year Sepa strategy?

SC, ING Contact your ERP vendor and align with your investment cycle, otherwise you waste a lot of money. And choose your bank.

GT, FMS Participate in the effort to build Sepa, be more proactive, find out more about what we are doing. Compare local instruments with Sepa, and make sure to plan ahead for the deadline.

CH, Lloyds TSB Make sure that they're clear about the flows they've got spread around the euro area. Talk to the banking and other service providers to make sure they understand the options they provide and their strategies around that. Be demanding about what they want, and determine short-term and long-term objectives.

RW, Kimberly Clark Get account structures as slimline as possible to be ready for Sepa. Work with banks on pricing, especially for domestic instruments and, if they're going to replace it with a Sepa instrument, to make sure it's in line. Work with purchasing and sales departments and their contracts. Look at the prototypes that are being used to try to get leverage to move to Sepa.

RuW, Citi Demand that your bank be a trusted adviser. Get all the information about what happens in the market, what happens in standardization, where they can be influential and voice their needs. Be proactive. Know your flows. Monitor the evolution in the customer to bank XML standardization, understand the time line for the ERP system changes that will allow to embed Sepa and hence achieve the full end-to-end implementation.

RS, Mondy We need more effective lobbying, to understand better our cross-border flows, and to standardize our processes.

RB, France Telecom Be as universal and open as possible. It all depends on whether you are in a centralized organization or not, in the retail business or not, but the most efficient way to handle the future of Sepa is to use as universal a standard as possible, beyond Sepa borders.

AR, Deutsche Bank There should be more active engagement between corporates and banks. Corporates need to look at Sepa as more than just a compliance project. Banks are getting better at helping provide business case analysis on the opportunities Sepa can deliver. Look at the business case, but also benchmark where other businesses have taken their corporate and cash management structure and see where Sepa can enable a similar pathway or strategy. Talk to the banks, get an understanding of the roadmap and what the catalysts can be, but then validate and double-check what they're saying. Over the last 12 months we have heard from corporates how the banks have not provided enough clarity on Sepa opportunities and individual service offerings but many banks have put lots of money into tangible investments and platform infrastructures. Speak to senior management and understand the investment strategy. The market is consolidating. Big corporates have to understand that the bank they should choose for the long term is going to be investing year on year, bridging the gap between the medium-term opportunities and corporates' short-term objectives. Critically, though, corporates should think not just with a pure Sepa focus but in broader European-wide cash management terms.



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