February 20th, 2013

Your Migration to SEPA for Direct Debit Clients

Today’s Speakers:

Peter Cunningham
EMEA Head of Technology, Media & Telecommunications
Citi Transaction Services

Marie Geraghty
EMEA Receivables Senior Product Manager, Citi Transaction Services

Garry Young
Director of Corporate Services, Logica / CGI
Today’s Presenters

Peter Cunningham  EMEA Head of Technology, Media & Telecommunications, Citi Transaction Services

- Peter has been with Citi for 14 years during which time he has worked in Product Management roles across Trade and Cash Management in EMEA and North America; as an EMEA Cash Management Sales Consultant, and as a Client Sales Manager covering corporate clients. He is currently the Technology, Media & Telecoms Sector Head in EMEA for the Citi Transaction Services business.

Marie Geraghty  EMEA Receivables Senior Product Manager, Citi Transaction Services

- Marie has been with Citi for 16 years and is currently in her role as senior product manager responsible for designing efficient and automated collection solutions for the EMEA Receivables product suite. Prior to this, Marie was Global Netting product manager and has held a number of roles in Treasury Solutions Group.

Garry Young  Director of Corporate Services, Logica / CGI

- Garry joined Logica in 2000, holding a number of senior roles in the global financial services business. He has extensive experience in Financial Supply Chain and Finance BPO and now leads corporate services and SaaS. Garry has built a reputable profile within the banking community through regular speaking engagements and thought leadership articles.
Time to Act

Get ready for SEPA

3 4 6 days

- Euro zone end date 1st February 2014
  - Organisations need to act to now to migrate their flows
  - May need to ensure full migration in 2013 due to year end technical freezes

- SEPA can be leveraged to re-engineer European cash management processes

- SEPA Direct Debits (SDD) requires specific planning and analysis
  - Choosing scheme and mandate management strategy is critical
1. SEPA Market Update
Single Euro Payments Area (SEPA)

SEPA is the payments integration initiative of the European Union for simplification and harmonization of ACH and Direct Debits in EUR, removing the cross border barriers.

- 32 Countries
- Euro currency only
- Euro ACH and Direct Debits within this geographical area (Payments to/from SEPA countries not impacted)
- Single Legal Framework
- Standardised Schemes on basis of ISO 20022 XML

### 32 SEPA Countries

<table>
<thead>
<tr>
<th>Austria</th>
<th>France</th>
<th>Liechtenstein</th>
<th>Portugal</th>
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<tbody>
<tr>
<td>Belgium</td>
<td>Germany</td>
<td>Lithuania</td>
<td>Romania</td>
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<td>Bulgaria</td>
<td>Greece</td>
<td>Luxembourg</td>
<td>Slovakia</td>
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<td>Cyprus</td>
<td>Hungary</td>
<td>Malta</td>
<td>Slovenia</td>
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<td>Czech Republic</td>
<td>Iceland</td>
<td>Monaco</td>
<td>Spain</td>
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<td>Denmark</td>
<td>Ireland</td>
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<td>Estonia</td>
<td>Italy</td>
<td>Norway</td>
<td>Switzerland</td>
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<tr>
<td>Finland</td>
<td>Latvia</td>
<td>Poland</td>
<td>UK</td>
</tr>
</tbody>
</table>

*Highlight denotes EUR zone countries*
SEPA Market Development Timeline

2008
Jan: SCT launch

2009
Nov: SDD launch

2012
Feb: SEPA regulation passed in European Parliament – end dates set

2013
Feb/ Mar: Niche scheme announcement expected

2014
Feb: Migration end-date (SCT and SDD in euro Member States)

2016
Feb: Migration end-date (niche schemes)
Oct: Migration end-date (SCT and SDD in non-euro Member States)

- **SCT** – SEPA Credit Transfer
- **SDD** – SEPA direct debit
Adoption of SEPA Direct Debit

An immature but evolving market – with uptake in volumes accelerating over the past year.

- **Core Scheme**: Aimed primarily at C2B Flows (also B2B flows). 3876 financial institutions signed up Core Scheme

- **Business to Business Scheme**: Dedicated to B2B Flows. 3415 financial institutions have signed up B2B Scheme

- **Regulatory Requirement**: Any bank that is reachable for domestic direct debit in a EUR zone country must be reachable for SEPA DD Core

- **No requirement currently for banks**:  
  - To be reachable in Non-EUR countries (will come in 1 February 2016);  
  - To participate in SEPA DD B2B

Source: EPC – Feb 2013
SEPA can support an organisation’s path to centralisation – standardisation and rationalisation are key features.

Centralisation Path
- Account Rationalisation
- Technology Infrastructure
- Bank Relationships
- Operating Structure
- Cash Management Strategy

Opportunities through SEPA
- Account rationalisation possible with the ability to make and receive EUR payments
- Harmonised process and account formats ease technology standardisation and rationalisation
- Fewer processes and account requirements = bank rationalisation
- Standardising AP and AR processes
- Centralisation and efficiency agenda, enhancing visibility and reducing costs
2. Migration to SEPA Direct Debits (SDD) Collections

- Understand the scope
- Transitioning flows
- Ensuring readiness
- Mandate migration and mgt
- Putting the plan together
# Understanding the SEPA DD schemes

<table>
<thead>
<tr>
<th></th>
<th>Core</th>
<th>B2B</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. The Basics</strong></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>• Mandatory DD scheme for C2B and/or B2B collections</td>
<td>• Optional DD scheme solely for B2B collections</td>
</tr>
<tr>
<td></td>
<td>• All banks reachable for domestic DD schemes in EUR zone reachable for Core.</td>
<td>• Reachability ~80-85% of Core.</td>
</tr>
<tr>
<td><strong>2. Revocability / Claims</strong></td>
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<tr>
<td></td>
<td>• Debtor claim back funds collected up to 8 weeks</td>
<td>• No entitlement to obtain refund of an authorised transaction</td>
</tr>
<tr>
<td></td>
<td>• Debtor can claim back funds without a mandate up to 13 months</td>
<td>• Debtor can claim back funds collected up to 13 months, only if done without a mandate</td>
</tr>
<tr>
<td><strong>3. Value Dating Cycles</strong></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>• D-5 for first collection / one-off collections</td>
<td>• D-1 for first collection / one-off collections</td>
</tr>
<tr>
<td></td>
<td>• D-2 after the first collection</td>
<td>• D-1 after the first collection</td>
</tr>
<tr>
<td></td>
<td>• D+5 for returns</td>
<td>• D+2 for returns</td>
</tr>
<tr>
<td><strong>4. Mandates rules (common)</strong></td>
<td></td>
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<tr>
<td></td>
<td>• Mandates are the responsibility of the creditor who must hold mandate signed by debtor.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Mandates need to carry a Unique Mandate Reference number</td>
<td></td>
</tr>
<tr>
<td><strong>4. Mandates rules (specific)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Legacy Mandates can migrate to the SEPA DD Core scheme.</td>
<td>• New mandates are required for B2B.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Debtor must lodge mandate with the debtor bank or debtor bank will refuse DD.</td>
</tr>
<tr>
<td><strong>5. Common Attributes</strong></td>
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<tr>
<td></td>
<td>• Unique Identifier (CSID) for each legal entity.</td>
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<tr>
<td></td>
<td>• 4 Collection types and 14 days notice must be provided to the debtor</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• New fields including Signing date, Scheme, collection type</td>
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</tbody>
</table>
Convergence

SEPA aims to bring standardisation in the scheme structure and transaction type. As countries converge and harmonise over time to that end goal, there are a few country differences that need to be factored in when implementing SDD.

<table>
<thead>
<tr>
<th>Country</th>
<th>Scheme(s) Migrating to SEPA</th>
<th>Possible Niche</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>Non Pre-Authorised, Pre-Authorised</td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>DD</td>
<td></td>
</tr>
<tr>
<td>Finland</td>
<td>DD</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>Direct Debit, Accelerated DD</td>
<td>LCR and BOR</td>
</tr>
<tr>
<td>Germany</td>
<td>Pre-authorised, Non Pre-authorised</td>
<td></td>
</tr>
<tr>
<td>Ireland</td>
<td>DD</td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>RID</td>
<td>RIBA</td>
</tr>
<tr>
<td>Netherlands</td>
<td>DD: types A-E</td>
<td></td>
</tr>
<tr>
<td>Portugal</td>
<td>DD</td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>AEB19, AEB58</td>
<td></td>
</tr>
</tbody>
</table>

Potential country level differences to migration approach

- Schemes in scope – note: Niche scheme announcements due in late Feb 2013
- Additional Optional Service (AOS) – e.g. Italy mandate messaging
- CSID generation
- Mandate migration – generate unique mandate reference etc
- Notification to customers

Niche scheme announcements expected in Feb/March 2013
CSID – Unique Creditor or Originator Identifier

An CSID is an unique number to identify the collector in a SDD scheme and it is determined on a legal entity basis - without importance put on the account location. Each business can have multiple CSID’s.

- It needs quoted on each mandate
- Must be included in the DD transaction initiated/sent
- Possible to auto generate

- There are several ways this CSID can be generated / applied for – for example:

  UK
  ↓
  Citi algorithm to auto-generate

France Germany Austria
↓
Apply to central bank using documentation
↓
Market currently only have process to migrate existing CSID, not for new CSIDs

Ireland
2. Migration to SEPA Direct Debits (SDD) Collections
SEPA Transition Can Be Lighter or Complex

Organisations can choose to leverage SEPA as an opportunity to reengineer existing cash management structures in order to reap longer term centralised and standardised benefits. Alternatively a lighter approach can be taken.

Looking to re-engineer receivables structure, in combination with SEPA adoption?

Full cash management re-engineering

- Centralise AR operations
- Rationalise account structures to leverage SEPA features
- Evaluate implementing ISO 20022 XML
- Consolidate banking relationships
- Obtain BIC/IBAN information
- ERP set up new payment types and fields for DD
- Set up in-house or outsource Mandate Management processing
- Bank connectivity and file format

No cash management re-engineering

- Continue to operate from existing account and process structures
- Obtain BIC/IBAN information
- ERP set up new with payment types and fields for DD
- Set up in-house or outsource Mandate Management processing
- Bank connectivity and file format

SEPA promotes XML usage in the customer-to-bank space, but ‘conversion’ services are allowed and supported
Assess Impact of SEPA to Your Organisation

The first step in the process is to understand your current Euro collection flows, account structures, bank relationships and technology.

Key Questions:
- How are our Euro DD collections performed today?
- Where are our collection bank accounts?
- What are the volumes?
- What is our bank connectivity and file format today? Do we want to use XML?
- Can we rationalise bank account structures/providers?
- How do we communicate with customers today?
- How do we manage mandates today?
- Do we collect BIC & IBAN today?
- Do we want to use SEPA to collect from customers in new countries?
- Have all the relevant regulatory, tax, legal and compliance implications been assessed?
Broader Organisational Impact

Critical Migration Success Factors

Internal Engagement

- Stakeholder engagement
  - Finance
  - Technology
  - Legal
  - Sales
  - SSC
  - Operational support

- Managing process changes
Decide on Core or B2B scheme

**Core Scheme**
- Consumer and Business collections
- Longer refund period for debtors
- Creditor mandate responsibilities
- Existing mandate valid
- D-2 Standard Execution Cycle

**SEPA Direct Debits**
- Business collections
- Irrevocability of collection
- Creditor & Debtor mandate responsibilities
- New mandates required
- D-1 standard execution cycle

**B2B Scheme**

**Key Questions:**
- Customer base?
- Attractiveness of irrevocable collection?
- Desire to open mandate/commercial discussions with customers?
- Ability to meet new mandate responsibilities?
- Ability to incorporate technical changes required?
2. Migration to SEPA Direct Debits (SDD) Collections

- Transitioning flows
- Understand the scope
- Ensuring readiness
- Putting the plan together
- Mandate migration and mgt

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Grandfathering Legacy Mandates

Legacy Mandates are granted grandfather rights for the same collecting entity, meaning they can migrate across to the SEPA DD Core scheme.

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**Existing Mandates**
- Core: existing mandates are valid for the same legal entity collecting, albeit they might be missing mandatory mandate data elements
- B2B: new mandates required
- Unconditional consumer refund rights under the legacy mandate are retained under the Core Scheme.

**New Mandates (After Feb 2014)**
- Must comply with mandatory data element requirements for both Core and B2B.
- The European Payments Council (EPC) have published guidelines / templates on website
## Decide on Your Mandate Management Approach

### Key components for review

<table>
<thead>
<tr>
<th>Component</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Send mandates out for signature</td>
<td></td>
</tr>
<tr>
<td>Upload Mandate Related Information</td>
<td></td>
</tr>
<tr>
<td>Convert legacy mandates into SDD compliant</td>
<td></td>
</tr>
<tr>
<td>BIC/IBAN conversion &amp; validation</td>
<td></td>
</tr>
<tr>
<td>Maintain a mandate database</td>
<td></td>
</tr>
<tr>
<td>Store mandates</td>
<td></td>
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<tr>
<td>Notify customers they are being migrated to SDD</td>
<td></td>
</tr>
<tr>
<td>Use correct timings for collections</td>
<td></td>
</tr>
<tr>
<td>Create collections in SEPA XML</td>
<td></td>
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<tr>
<td>R-messages</td>
<td></td>
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<tr>
<td>Comply with SEPA rule book(s)</td>
<td></td>
</tr>
</tbody>
</table>

Variations by country still exist as countries converge / harmonize across SEPA region
## In-house Project or Outsourced Service?

<table>
<thead>
<tr>
<th>In-house Project</th>
<th>Outsourced Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Well established SEPA programme</td>
<td>Late starting SEPA programme</td>
</tr>
<tr>
<td>- Believe time is still on your side</td>
<td>- Aggressive national migration plan</td>
</tr>
<tr>
<td>IT and SEPA resource and budget Available</td>
<td>- Fast track option</td>
</tr>
<tr>
<td>- Technical formats and business rules covered</td>
<td>- Insurance policy</td>
</tr>
<tr>
<td>BIC / IBANs</td>
<td>Resource and budget constraints</td>
</tr>
<tr>
<td>- Available and Validated</td>
<td>Reduced Capex outlay</td>
</tr>
<tr>
<td>Preference for Capex</td>
<td>- No Software Licence, hardware etc.</td>
</tr>
<tr>
<td>Resources to monitor SEPA rule books</td>
<td>Opex profile</td>
</tr>
<tr>
<td>Technology “religion”</td>
<td>Need access to SEPA expertise</td>
</tr>
<tr>
<td></td>
<td>Technology “agnostic”</td>
</tr>
<tr>
<td></td>
<td>- Want to avoid technology lock-in</td>
</tr>
</tbody>
</table>
CGI SEPA Mandate Management Service

SEPA
- c15% of all SDD traffic
- Major banks & corporates
- Highly scalable technology infrastructure
- Secure

Fast implementation
- <8 weeks
- Local on-boarding Managers

Mandate migration
- Mandate scanning
- Mandate pack production
- Secure archiving
- BIC/IBAN conversion & validation

Complete package
- Fully managed service
- Transparent pricing
- Guaranteed for current & future SEPA requirements
2. Migration to SEPA Direct Debits (SDD) Collections
Prepare Your Organisation

It is important to ensure internal stakeholders are engaged to cover all necessary aspects of the SDD migration. A project managed approach is recommended.

- Investigate ERP impact and budget project
- Bank and Account structure
- Banking connectivity and format strategy
- Bank Reconciliation

- Establish a dedicated team to manage the transition and monitor activities across all impacted departments

- ERP Changes (BIC / IBAN + other fields)
- Accommodate process changes
- Mandate Management
- Potential Bank Connectivity and Format changes
- Non-ERP system changes (e.g. update to sales systems)
- Testing and production

- Ensure BIC / IBAN readiness
- New mandate responsibilities and SEPA fields
- Confirm end-end flow of payment information and reconciliation

- Awareness of SEPA changes
- Readiness (e.g. queries on mandates)

- Awareness of changes to refund rights under SEPA Schemes
- Potential changes to customer contracts
Migration to SEPA Direct Debits (SDD) Collections

- Transitioning flows
- Understand the scope
- Putting the plan together
- Mandate migration and mgt
- Ensuring readiness

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Transitioning to SEPA

Key Considerations

- Decide whether a pilot market would suit
- Phased transition of flows by, e.g.
  - Market readiness
  - Volume per country
  - Business model

In live environment:

- R-transactions (rejects, returns etc) fully functional
- Reconciliation cash application rates satisfactory
- Readiness for new customers – e.g. new mandates etc
3. Migration to SDD Payments
Migration to SDD Payments are Collector Driven

- **Account block**
  - ON or OFF level
  - Check if your bank auto blocked – e.g. Spain

- **SEPA DD B2B mandate lodgement**
  - Core: no action required on mandate front
  - B2B: lodge with debtor bank

- **Format changes**
  - Format / info may change for SEPA DD transactions on statements, etc.
  - Monitor to ensure systems continue to automatically capture these transactions (none going into repair)
SDD Payment Mandate Migration Consideration

It is the responsibility of the Collector (creditor) to hold the mandate on file, and be able to produce it, should there be a claim.

**SEPA DD Core**

- **Creditor**
  - Hold the mandate on file
  - Sends mandate to their Bank

- **Debtor**
  - Sends mandate back to Collector
  - Payer completes and signs mandates

- **Payer** sends mandate back to Collector
  - No involvement by Banks

**SEPA DD B2B**

- **Creditor**
  - Hold the mandate on file
  - Sends 2 copies of mandate to Payer

- **Debtor**
  - Holds the mandate on file
  - Sends mandate to their Bank

- **Debtor Bank**
  - Holds to reference against all SEPA DD
  - Debtor Bank must REFUSE DD for which they do not have mandate on file
4. Want to Know More?
Other Citi SEPA Events / Activities

For assistance on your SEPA project or for more additional SEPA information – please contact your Citi representative.

- Please visit our SEPA website at transactionservices.citi.com/SEPA/
- Additionally EPC have a very helpful website: www.europeanpaymentscouncil.eu

Webinars

- 26th February 2013 at 2.30pm Hong Kong time
  “Countdown to SEPA — 1 year to go” – this webinar is focused on Asia based clients
- 14th March 2013 at 3pm GMT
  ”SEPA – Practical Steps to Meet the Deadline”

Roundtable events

- Paris, Belgium, Frankfurt (Eurofinance), Madrid, Dublin and other European capitals.
- Please contact your Citi representative if you are interested in attending.
Q&A
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Citi works with its clients in greenhouse gas intensive industries to evaluate emerging risks from climate change and, where appropriate, to mitigate those risks.

efficiency, renewable energy and mitigation