



Experts in the News

SEPA: How Should Corporates Plot Their Course?

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Corporates have been bombarded with information on SEPA throughout 2007. But as Day 1 of SEPA draws closer, what does 28 January 2008 actually mean for corporates? What practical steps should they take immediately? And how should they plan for the longer term?



Peter Jameson
Citi
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Most corporates are now well aware that 28 January 2008 marks the launch of the Single Euro Payments Area (SEPA). But what does this actually mean for corporates? Yes, the first SEPA payment instrument – the SEPA Credit Transfer (SCT) – will be launched,

but this is only the start of a transition period, during which national payment instruments (and later direct debits) will co-exist alongside the new SEPA services. As there is no fixed end-date yet, the industry faces an indeterminate migration period. Coupled with the fact that it is not mandatory for banks, let alone corporates, to support SCTs from day one, there is understandable uncertainty about how and when a corporate should adopt the new instruments.

As well as considering SEPA, the corporate treasurer must manage competing demands such as new

industry standards, evolving technologies and increasing focus on working capital management. The key challenge is knowing how and when to respond to SEPA. What must corporates do for January 2008? Where can they make immediate short-term gains, and how can they capitalise on the long-term opportunities that may present themselves?



SEPA Day 1: How Should Corporates Respond?

It is important to identify who within the organisation will keep up to date with the ongoing market changes, and champion their impact on business activities. In preparing for SEPA, there are some key steps to be considered as the launch of SEPA approaches:

Understand euro payment flows

While this sounds simple, today's treasurers and cash managers operate in an increasingly complex environment, often in the wake of mergers/acquisitions or changing organisational demands. It is

essential that an organisation has identified every pocket of euro payment flows, for example some may have stayed outside a shared service centre structure. Only after this critical step can you evaluate the potential impact of SEPA on existing cash management structures and start planning how to respond.

Be ready for incoming SEPA payments

Whether or not a corporate decides to migrate in early 2008, they may receive incoming SCTs from 28 January 2008. First, they need to make sure their bank is able to receive SCTs. If they are, you need to

know how will they provide the additional payment information in bank statements because this may have an impact on your accounts receivable processes.

Start collecting BICs and IBANs from customers

Corporates should continue to collect the BIC and IBAN information from their suppliers, as this will be a pre-requisite to migrating to SCTs. However, corporates should also consider extending this exercise to include customers that pay by direct debit. This is an essential step in preparing for the launch of SEPA Direct Debits (SDDs) in 2009. The

Table: SEPA: Addressing the Practical Issues

Payment Category	Opportunity	Benefits of SEPA	Considerations
Cross-border Payments	High: Immediate benefits	<ul style="list-style-type: none"> Move from expensive same-day payments to cheaper non-urgent SEPA credit transfers. Bring cross-border payments into same process flow as domestic payments. Standardise the format/information across all non-urgent euro payments. 	<ul style="list-style-type: none"> What proportion of payments are urgent compared to non-urgent? Central bank reporting (CBR) will continue to be an issue and will not be supported in SEPA.
Domestic Vendor Payments	Medium: Some benefits - consider migrating flows and continue to monitor these.	<ul style="list-style-type: none"> Standardise vendor payments process across all countries. Simpler set-up than multiple national formats. Move to 100% IBAN usage. No prerequisite to centralise accounts. Fits well with SSC/payment factory project. 	<ul style="list-style-type: none"> Flexible cycle time until 2009 (D+3 depending on bank). CBR may continue to be an issue depending on residency, and will not be supported in SEPA. All banks may not participate – payments rejected or routed through alternate means during initial period.
"Time-Cycle-Critical" Payments	Low: Limited immediate benefit and therefore revisit by 2010.	<ul style="list-style-type: none"> Longer-term opportunity to standardise processes. SEPA is a core payment type only, additional features, such as payroll and tax, will come later. Many of these processes are managed locally, creating less opportunity for standardisation. 	<ul style="list-style-type: none"> Flexible cycle time until 2009 (D+3 depending on bank). Difficulty in migrating time-cycle sensitive payments (e.g. payroll). All banks may not participate – payments rejected or routed through alternate means during initial period. Are there Additional Optional Services (AOS) that could resolve this in the short term?
Incoming Payments	Medium: Some benefits but difficult to influence	<ul style="list-style-type: none"> Longer-term opportunity to standardise processes. Improve reconciliation based around a single statement type and data fields. 	<ul style="list-style-type: none"> Difficulty in influencing clients to change behaviour. Limited opportunity to re-engineer receivables until Direct Debits are in place. CBR issues may lead customers to remain with national payment types and resist paying "cross-border".

accounts receivable team can learn from the experience of their colleagues in accounts payable who have already been through this process.

Look for immediate savings by migrating cross-border payments

Many corporates still use traditional same-day funds transfers to make cross-border payments, despite the fact that they may not actually be urgent. These transactions will remain expensive and inefficient to handle. By taking advantage of the standardised SEPA payment instrument, Corporates could immediately reduce bank costs by replacing these cross-border payments with SCTs. An extension of this is to consider closing accounts in low volume countries and making the payments from an account in another country.

Consider SEPA in the context of other projects and initiatives

Corporates often have a number of strategic projects underway, many of which touch the same processes, systems and resources. By considering the SEPA requirements alongside other business initiatives, the cost of SEPA-related changes could be reduced. For example, if upgrading to a new ERP platform, SEPA implementation could be closely aligned with this project. This could alleviate the pressure on already scarce project resources, and may even eliminate the cost of moving to SEPA. Take an integrated approach – SEPA does not have to be a standalone project.

Navigating the Transition Period

As mentioned earlier, national payment services will co-exist with SEPA instruments for an indefinite period. Although many corporates could quickly benefit from the standardisation by implementing SEPA early in 2008, there are a number of important considerations to bear in mind. A rapid adoption of SEPA is in everyone's interests, but

certain types of payment flows may not fit well within the SEPA framework from Day 1. Some key points to consider are:

1. Central bank reporting: SEPA was designed for an environment where national practices cease to exist, but it is clear that – in the short term at least – central bank reporting (CBR) will not disappear. This will have different implications in each market and must be considered by corporates before moving certain payments to SEPA. This is particularly important before embarking on any rationalisation of account structures. The banking industry continues to lobby national and EU bodies to resolve this issue.
2. Flexibility of cycle time for SCTs: unlike many of the national payment infrastructures that have a fully predictable cycle, SCTs will operate under a "maximum" cycle time of three days. This may prevent "time cycle critical" activities, such as salary payments, migrating to SEPA until the cycle time is reduced to D+1 by 2009. Corporates can consider using SEPA for vendor payments where this is not an issue.
3. Some banks may not participate in SEPA. Although many banks will commit to SEPA from the launch, others may not join in the first wave. For corporates, it is critical to understand how their banks will handle this scenario, to guarantee receipt of the payment by the beneficiary and eliminate the risk of rejected payments. Corporates should challenge their banks to ensure they have a solution in place to address this issue.

Over time these issues will be resolved but it is critical for corporates to weigh up the benefits of SEPA while at the same time taking into account the above considerations.

Planning Now for the Long Term

Most corporates now support the SEPA vision and longer-term benefits for their organisation. SEPA will clearly present corporates with the opportunity to rationalise euro account structures – many treasurers have this as their long-term objective. However, in doing this, corporates must consider the impact on tax, residency, legal entity structure and reconciliation processes. There is also the issue of handling local payment instruments such as cheques.

A centralised account structure may not suit all corporates, given the complex and multi-entity structures that many have built up over the years. Nor should it be seen as a prerequisite to implementing SEPA. There will still be significant advantages from the standardisation of payment instruments. Liquidity management solutions will remain vital within the treasurer's toolkit. This allows treasurers to operate a single euro position regardless of the complexity of their account structure.

Challenge Your Banks

It is essential that corporates challenge their banks to provide them with the information they need to plan a successful SEPA transition. Banks have designed the new SEPA schemes and are facilitating their implementation through their involvement in the European Payments Council and by working closely with the European regulators. As a result, they are in an ideal position to offer accurate, timely and practical advice to corporates.

In addition, banks can take away some of the pain by integrating SEPA instruments into existing payment platforms. This can eliminate the need for a corporate to change connectivity, security or even file format, helping to minimise the impact of change for the corporate and simply embedding SEPA in existing processes.

Most importantly, corporates should evaluate whether their partner banks are continually investing in broader cash management services. Despite its importance, SEPA is just one of many initiatives and challenges facing treasurers today. As many banks focus significant portions of their technology budget on readiness for SEPA, make sure your bank continues to invest in other areas that are equally critical to your own strategy. Corporates will continue to need a full cash management bank not just a SEPA bank.

Conclusion

Some corporates will adopt SEPA early in 2008 and their planning is already under way. Others may not consider migration until later – but they should start planning now.

There is no doubt that SEPA offers corporates the opportunity for standardisation and efficiency. The challenge is deciding when and how to plot a course from today's payment instruments to the new SEPA services.

Looking ahead, a truly effective SEPA strategy will encompass a company's business needs today, what needs to be considered for 28 January, as well as realising the longer-term benefits of the harmonised payments landscape.

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