SEPA revisited

THE SINGLE EURO PAYMENTS AREA FINALLY BECAME A REALITY IN AUGUST, BUT MUCH WORK REMAINS TO ACHIEVE FULL HARMONISATION AND TO RELEASE BENEFITS TO TREASURERS. NEIL AINGER INVESTIGATES

The payments industry may have been holding its breath, but there was no major spike in bounced payments once companies started making euro payments to each other on 1 August under the new Single Euro Payments Area (SEPA). Similarly, there was no reported surge in exceptions management fines from banks on treasurers, although some instances of both were reported.

The lack of full cross-border payment harmonisation so far is a concern, however, with SEPA not yet being implemented consistently across participating eurozone countries. For instance, some national tax authorities in Italy, Spain and elsewhere were unhappy about centralising collections through one pan-European bank account, so they have not yet allowed this to happen. But it has happened in Finland, where treasuries can already benefit from not having numerous European bank accounts. Yet, overall, SEPA is by no means universally applied or consistent for accounts payable and receivables.

Additionally, 19 slightly different 'flavours' of the XML ISO 20022 messaging standard mandated for SEPA were still in place on the 1 August migration day. According to Jennifer Boussuge, head of global transaction services, EMEA, at Bank of America Merrill Lynch: "SEPA is a concern in that treasurers still have many different variations of XML to deal with.

"There is a feeling that the phase one compliance tick aspect of the payments harmonisation drive has been achieved," she says, "but that phase two, dedicated to actually getting the value out of SEPA and ensuing cross-border harmony, is only just beginning." In other words, SEPA 2.0 (see box above) needs to deliver on the promised benefits.

WHAT IS SEPA 2.0?

The term 'SEPA 2.0' refers to the revised February 2016 compliance deadline when differing XML variations must end, conversion services stop and redundant national schemes such as Germany's DK/ZKA and ELV schema variations will be switched off. Tax impediments to standardised collections in Italy, Portugal and elsewhere will hopefully also stop. Non-euro countries, such as the UK and Denmark, must also join SEPA in October 2016.

But SEPA 2.0 is not an official term. It also refers to the hoped-for advent of SEPA benefits such as virtual bank accounts, cheaper payments and more convenient electronic e-commerce payment platforms, such as the MyBank portal. The expected bonanza in these data-rich services hasn't materialised yet, but it is hoped that they will do under an informal SEPA 2.0 as the new environment settles in, abetted by the separate Payment Services Directive II and the EU's wider digital agenda programme.

Search for standardisation

While full migration to the SEPA credit transfer (SCT) and SEPA direct debit (SDD) payment formats was achieved in August, this was largely thanks to the six-month leniency period allowed by the European Commission. Additionally, some national exceptions – such as the German DK/ZKA schema variants of the general XML ISO 20022 technical schemes – were allowed to remain *in situ*, at least until a revised full compliance deadline hits in February 2016. This exception, like others in Austria and elsewhere, will need to be removed and a single XML standard adopted before cross-border treasury benefits can accrue.

Harri Rantanen, head of technical formats and standards at SEB Merchant Banking and a Finnish member of the Common Global Implementation-Market Practice (CGI-MP) payment industry initiative, which is trying to deliver a worldwide framework for a single standardised XML message structure, is disappointed that SEPA has not so far encouraged a global XML format. "I think it eventually will, however, and other separate instruments such as Swift's business process outsourcing trade finance tool will also drive adoption," he says.

The adoption of SEPA conversion services, particularly by SMEs and small banks, allowed a tick-box compliance to be achieved – but crucially without the internal technological and organisational changes needed to get the hoped-for treasury benefits of universal reduced payment charges; better monitoring of cash flow, via more data-rich services; and standardised XML ISO 20022 messaging.

Regardless of these teething problems, European Commission VP Michel Barnier hailed the migration as a "real success". This is true to the extent that over two billion SEPA-compliant payments successfully flowed across the euro area and more than 500 million citizens and 20 million businesses can now theoretically use a single bank account for all euro credit transfers and direct debits in the eurozone.

On the eve of the migration, in July 2014, the online SEPA indicators website from the European Central Bank (ECB) showed SCT-compliant transactions accounted for 98.5% of all credit transfers, while SDD payments reached 97%.

Both figures have since crept up, but as Bob Lyddon, general secretary of the IBOS international banking network, said in a statement on 1 August: "The ECB figures disguise several factors, most notably the failure of the SEPA project against the terms of reference – namely, efficiency, harmonisation and cost. The operational efficiency of the SEPA project, especially the SDD scheme, has fallen dramatically compared with the legacy national schemes [being replaced]." In the short term, that has caused consternation among treasurers who were expecting lower payment processing fees immediately.

Denmark, the UK and other non-euro countries are due to join SEPA in October 2016. But, in reality, most are ready for it, as they have already overhauled payment infrastructures or outsourced them in order to continue dealing easily with their continental European partners.

"It is still not clear that all these non-euro countries are ready for IBAN-only payments, however, so some oversight of this later migration to SEPA is advisable," warns Jonathan Williams, a director at Experian.

A SEPA 2.0 is required to bridge all these gaps in full harmonisation.

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Treasurers' SEPA experiences

Nicholas Franck, group treasury projects and products director at cosmetics group Oriflame, rightly laments the need for a SEPA 2.0. "So much for the expected commonality… it's been a lot of work for not much result yet," he notes.

Meanwhile, Massimo Battistella, deputy chairman of AITI, the Italian treasurers' association, and manager of administration services at Telecom Italia, was not best pleased either, sharing an SDD migration problem he had encountered. "We had issues with 10,000 mandates being mistakenly cancelled after a small Italian bank refused our payments, triggering an automated 'repair procedure' – all because the bank said there was no mandate when actually there was. Regarding SCTs, in some cases I've also received payments without the payer name."

Oriflame's treasury is still rolling out Swift and XML ISO 20022 messaging across the world as part of its plans to get global efficiency in its shared service centres. SEPA was expected to help but, so far, Oriflame – like others – has not had the full harmonisation expected.

"Some banks and countries still want bank identifier codes, for instance, as well as international bank account numbers (IBANs) to process payments, while others persist with basic BANs. Even though everyone is using XML, within that standard you see slightly different requirements on a case-by-case basis," says Franck. "Sometimes a bank has adopted XML externally, but its internal legacy systems cannot handle it, so we're still asked to make changes even after the official 1 August 2014 migration 'end date'.

"I do think things will get better, but simple procedures have been more difficult than they needed to be and pricing – which I believe will eventually fall – hasn't done so dramatically yet," he concludes, adding the caveat that treasurers should not drive banks too hard on price if they want a good relationship. In the pending Basel III capital adequacy era, where collateral requirements and corporations' payment patterns will decide who gets funding and who doesn't, treasurers have to consider this or look to the capital markets.

"I won't be surprised if we continue to see some 'SEPA repairs' and exceptions in the near future, but it'll be very painful to have to go to the boardroom in 2016 and say more work and resources are needed," continues Franck. "I hope that doesn't happen."

Eric Woons, manager of European treasury operations at Saudi financing company SABIC Capital, joins the plea, imploring regulators to "stop the exceptions, make sure it's fully harmonised cross-border and create one SEPA – as intended".

As soon as that happens in 2016, with conversion services stopping, national exceptions expiring and non-euro countries joining, treasuries can concentrate on further centralising their processes, structures and technology. E-invoicing and gains in collection efficiency are likely to be the primary aim.

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