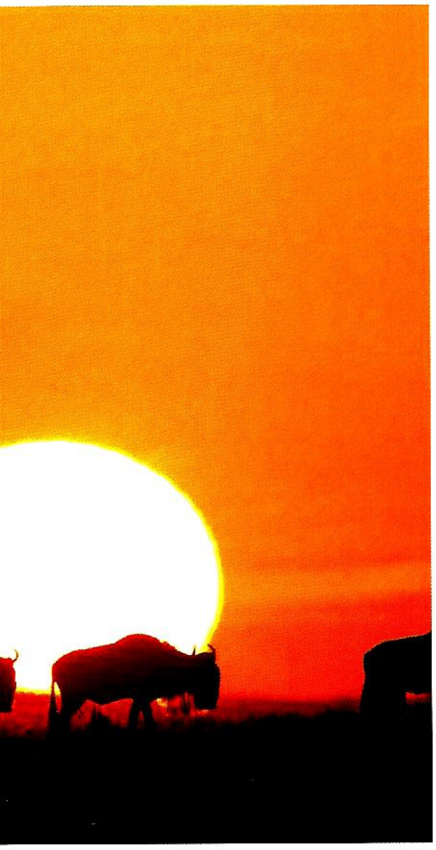

that all the compliance boxes are ticked when providing the correct international bank account numbers and bank identifier codes and that the correct messaging format is adhered to, it does not mean that procedurally compliance was achieved.

Not all banks support the use of conversion services. Christian Schaefer, global product management head, accounts payables and receivables, in Deutsche Bank's global transaction banking division, said that the bank chose not to invest in conversion services. He explained: "We had always been very clear on the shortfalls of such conversion services and advised corporates to become Sepa-compliant internally from the beginning. Most corporates followed our recommendation and migrated to Sepa without interim solutions."

Small to medium-sized enterprises that could not meet the costs of the internal technical upgrades required by Sepa – nor the deadline – have been the biggest users of conversion services, according to service providers.

Sepa compliance was considered less advantageous by many of them because, unlike multinational and large corporates, they are not large enough to use the introduction of standardised payments as an opportunity to establish cross-border shared service centres or centralised payment factories.

Marcus Hughes, director of business development at payments technology vendor Bottomline Technologies, said: "A large part of the effort was migrating legacy standards to Sepa, necessitating a huge number of conversion services."

However, Bob Lyddon, general secretary of the IBOS international banking network, said in a press release on August 1 that "the whole Sepa project has been a failure in its stated aim of transforming a series of immature and inefficient domestic markets into a single efficient pan-European one". He added that the ECB figures disguised "the failure of the Sepa project against the terms of reference: efficiency, harmonisation and cost", and said that Sepa – and particularly the direct debit scheme – was much less efficient than the legacy national schemes.

Teething problems

This highlights another problem, namely, that several countries still have their own payment infrastructures and practices.

Vanessa Manning, head of European payments and cash management at the Royal Bank of Scotland, pointed out that Sepa legacy systems would continue to be used until 2016 and not all niche instruments were using the Sepa messaging format, known as XML ISO 20022. She said: "Many corporations would like to process payments and collections for all countries through a single operational account but, in reality, in countries such as Spain and Italy, there is still the need to maintain local accounts to manage local payment instruments and process sensitive payments."

However, Gareth Lodge, a senior analyst at research firm Celent, believes that these teething problems were inevitable, given that Sepa was a "vast undertaking". He said there was hope that the promised efficiency benefits of Sepa would eventually be crystallised in "Sepa 2.0" (see box above), to reduce costs for corporates and consumers.

The new Sepa compliance deadline of October 2016 for non-euro countries, such as the UK and Denmark, is not expected to prove too taxing because many non-euro-area companies have already migrated to new Sepa-compliant national infrastructures to ensure cross-border business.

Lodge said: "The UK has been compliant for at least two years. Equally, many international banks – lots of them with European operations based in London, and large UK banks with overseas business – have already complied [with Sepa]. They needed to, in order to continue to operate competitively in Europe."

What is Sepa 2.0?

The term Sepa 2.0 is often used to refer to the series of deadlines in 2016, by which the 19 different versions of the XML messaging service should be removed and be replaced by a single standard, niche payment product exemptions should end and non-euro countries must join the Single Euro Payments Area.

It also refers to the advent of the promised benefits of Sepa in terms of virtual bank accounts and more electronic e-commerce payment platforms like MyBank, which is the pan-European platform being tested in Italy. E-invoicing, new mobile solutions and other similar innovations should become much more prevalent under Sepa, aided by the Payment Services Directive 2, designed to encourage new entrants into payments, and the EU's wider digital agenda programme.

Anupam Sinha, director and head of corporate payments in Europe in Citigroup's global transaction services division, believes that the interpretation of Sepa 2.0 depends on the viewpoints of the different corporates, banks, consumers, governing bodies and regulators. He said: "Sepa 2.0 will mean increased corporate centralisation and bank account rationalisation for some, stronger governance and preparation for the 2016 deadlines for others."

However, Javier Santamaría, chairman of the European Payments Council, warned: "Whether or not Sepa delivers on its potential depends on the authorities adhering to and communicating a harmonised vision of who should do what, in order to achieve Sepa 2.0."