



# SEPA – DON'T WAIT, ANTICIPATE! »»

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# PREPARING YOUR CORPORATE SEPA BUSINESS CASE

Generally speaking, corporate awareness of the Single Euro Payments Area is only just starting to grow. And the many corporates that are aware that SEPA will soon be a reality tend to see it mostly as 'a problem'.

However, SEPA can mean significant cost savings and transparency for corporates in particular. But these savings will not emerge by themselves.

The objective of this positioning paper is to give an indication of the actions corporates can take to benefit from the opportunities that SEPA offers, in order to:

- > substantially improve corporate cash management;
- > streamline corporate banking relationships;
- > streamline the organization of corporate finance;
- > negotiate better deals with suppliers and banks.

**“SEPA WILL AFFECT SMALL- AND MEDIUM-SIZED CORPORATES AS WELL AS LARGE MULTINATIONALS ACROSS THEIR PAYMENT ACTIVITIES INCLUDING ADMINISTRATION, TECHNOLOGY AND OPERATIONS,”**

**ROBERT HEISTERBORG, ING BANK,  
GTNEWS 23 JANUARY 2007**

## SEPA: a simple concept with far-reaching consequences

'Put a man on the moon', 'Create a single currency for a dozen countries or more', 'Create a single payment zone for countries that use the euro'.

The above pronouncements present single, simple thoughts that have far-reaching consequences. And while man has been to the moon, and hundreds of millions of people use the euro every day, the Single Euro Payments Area, or SEPA for short, is still being developed. And we will soon see the results. Although SEPA will affect every inhabitant in the eurozone, it is corporates in particular that will benefit greatly from SEPA if they take a proactive approach to it.

As defined by key player European Payments Council (EPC), SEPA will be the area where citizens, corporates and other economic actors will be able to make and receive payments in euros, either between or within national boundaries under the same basic conditions, rights and obligations as now, regardless of their location.

In other words: SEPA will function as a single domestic payments market in which citizens and economic actors will all be able to make payments as easily and inexpensively as in their hometown.

SEPA is the largest payments initiative ever undertaken within Europe. Channelled through the EPC, SEPA can be seen as the response to EC Regulation 2560, which harmonises fees for cross-border and domestic euro transactions in the eurozone. From a legal perspective, SEPA will be made possible through the Payment Services Directive, which creates a harmonized legal environment and a level playing field.

Benefiting from SEPA will require commitment from all the parties involved: not only from payment service providers such as banks, processors and ACHs (Automated Clearing Houses) but also from the users of payment services such as citizens, traders, SMEs, corporates and public authorities.

## **CORPORATE AWARENESS OF SEPA IS ESSENTIAL**

As stated in the introduction, corporate awareness of the advent of SEPA is, to say the least, only moderate. Many corporates that have heard of SEPA, see it as a bank compliancy issue. But SEPA is much more than that. The potential impact of SEPA on corporates warrants considerable attention. There will, it is true, be some compliancy issues, but as far as corporates are concerned, SEPA means an opportunity to cut costs and improve the transparency of financial processes.

## **SEPA AFFORDS GREAT OPPORTUNITIES TO CUT COSTS AND INCREASE REVENUE.**

The European Central Bank asserts that the euro cannot fulfil its destiny as a unifying currency until SEPA has become a reality. Only then will consumers, businesses and public bodies be able to make cashless euro payments from a single payment account anywhere in Europe, using a single set of payment instruments, as easily, efficiently and securely as is the case today with domestic payments.

SEPA will mean a considerably improved payment environment for corporates. A major benefit will be one single process for both domestic and cross-border payments. Corporates with branches in two or more countries will be able to create a single file for all payments. And these payments can, in principle, be submitted to a single institution within standard clearing and settlement timeframes. General file standards will result in fewer anomalies and enhanced STP (Straight Through Processing).

Banks must be able to offer extended reach and to support SEPA-wide operations, thereby reducing administration costs and improving efficiency. Corporates with substantial payment volumes will be able to shop around for the best service and reasonable costs. Public bodies will also be able to derive similar benefits.

## **STEPS MUST BE TAKEN TO IMPROVE RESULTS WITH SEPA**

The important message here is: SEPA can help improve your corporate result. However, bringing about improvement requires action.

Below are the steps corporates need to take to make SEPA a success:

- > ensure that your stakeholders are well informed about SEPA;
- > perform a SEPA gap analysis: identify the ideal situation within SEPA, identify the present situation and identify the difference;
- > prepare your SEPA business case, part 1: impact analysis. Define the impact of the aspects found in the gap analysis;
- > prepare your SEPA business case, part 2: prioritization. Define actions based on the impact analysis and prioritize them.
- > define the implementation agenda;
- > organize a SEPA workshop;
- > implement the necessary changes that emerge from the previous steps.

**“A REAL SEPA WILL BE ACHIEVED WHEN CITIZENS IN THE EUROZONE CAN MAKE PAYMENTS THROUGHOUT THE WHOLE AREA FROM A SINGLE BANK ACCOUNT, USING A SINGLE SET OF PAYMENT INSTRUMENTS, AS EASILY AND SAFELY AS IN THE NATIONAL CONTEXT TODAY.”**

**GERTRUDE TUMPEL-GUGERELL, SPEECH FOR EPC, DURBURY 6 SEPTEMBER 2004.**

# ENSURE THAT YOUR STAKEHOLDERS ARE WELL INFORMED

Probably one of the most important factors that determine the success of SEPA for your corporate is how your stakeholders see SEPA. Players will, at some point in time, be obliged to implement the SEPA standards in their payment processes. And it is also true that SEPA will imply some compliancy issues for your company.

On the other hand, SEPA will present opportunities to harmonize financial processes to an extent that may well be unprecedented. This is particularly true for multinational corporates. The message here is: start seeing SEPA as a potential way to improve your corporate results.

For example, if a company has offices in seven euro countries and makes payments in these countries, these payments are likely to be made through the company's national bank relations that are probably managed by the national branch offices of the corporate. In SEPA, all these payments can be made from one single country, as quickly and as easily and for same charge per transaction as if the payment were made locally. It goes without saying that centralization of this kind would lead to considerable cost savings.

This example also illustrates why stakeholders need to be well informed: concentrating the activities of seven geographically spread departments into a single department is not the kind of change that is usually brought about by a single executive in one country. In order to see the potential gains of SEPA, it is essential that all stakeholders within your company, especially at group or holding level, are well informed.

## UTILIZE ONLINE RESOURCES

We found 17 million references to SEPA in a Google search. Entering SEPA 'Single Euro Payments Area' still produced 200,000... The following sites provide useful information:

<http://www.europeanpaymentscouncil.eu/index.cfm>

The EPC website, the initiator of SEPA, provides official and up-to-date information.

<http://www.ecb.int/paym/pol/sepa/html/index.en.html>

This link, provided by the European Central Bank, sets out exactly what SEPA is and what its goals are, and provides detailed information about the instruments employed to achieve these goals. An additional advantage is that the ECB also provides links to many documents translated into several different languages.

<http://www.eact-group.com/>

The information on the previous sites is as thorough as the organizations behind them. But a full understanding of SEPA is not possible without getting a taste of the intensity of the discussions surrounding it. These discussions reflect the considerable vested interests involved. Excellent examples of this type of discussion are to be found on the Association of European Corporate Treasurers (EACT) website.

Although these sites help one to get to grips with the basics, they do not answer the question: 'How could our company benefit from SEPA?' A definitive answer to this question can only be given following a thorough assessment of your company-specific situation.

Nevertheless, it is possible to give a rough outline of such an assessment and of the necessary steps to be taken to implement the ensuing changes. This is what the remaining pages of this positioning paper set out to do.

## FORM A SEPA TEAM

The first step to be taken when preparing your organization for SEPA, is to form a SEPA team. Participants should be the key players in the company's payment processes: the CFO, the Treasurer and others responsible for cash management, back-office administration etc.

## INFORM KEY DECISION MAKERS

The SEPA team will not be able to implement the necessary changes on its own. Some changes, as we will see, may directly impact the strategic choices of the company. Involving key decision makers early in the process, especially senior management, will ease the change process.

# PERFORM A SEPA GAP ANALYSIS

SEPA will most probably bring advantages to your company. And the question then is which actions you need to take to realize those advantages.

As SEPA has an effect on many different areas, the answer to the above question depends on the present organization, on the level of IT system and organizational unit centralization, on who your clients are, and on which markets and in which countries your corporate is active.

The general approach is to first establish the present situation, and then define the desired situation. The difference between the two is the input for the SEPA business case that needs to be developed. The implementation agenda can be established on the basis of a solid business case, and the changes then implemented.

**“BUSINESSES THAT UNDERESTIMATE THE LEVEL OF PLANNING AND ORGANIZATION REQUIRED BY THE IMPLEMENTATION OF SEPA STAND TO LOSE IN WAYS BEYOND HIGHER PROCESSING COSTS AND DELAYED PAYMENTS.”**

**ROB DE RIDDER, HEAD OF SERVICES OPERATIONS,  
TRANSACTION BANKING ABN AMRO.**

## A selection of SEPA abbreviations

### **SEPA – Single Euro Payments Area**

The E in SEPA does not stand for ‘European’ but for ‘Euro’. Why make a point of this? Because it clearly defines the scope, namely priority to the eurozone countries (see ‘EU29’).

### **EU29**

This is the area in which all payments denominated in euros are considered to be domestic. It consists of the current 27 members of the European Union, plus Iceland, Liechtenstein, Norway and Switzerland.

### **EPC - European Payments Council**

The European Payments Council (EPC) was formed in response to ‘Regulation 2560’ issued by the European Committee. It stipulates that fees charged for cross-border payments in the eurozone are to be the same as for domestic payments. The EPC comprises 42 banks, the three European Credit Sector Associations and the Euro Banking Association. The council’s main task is to simplify and codify standards, and lower payment costs across the eurozone: the beginning of SEPA. The EPC is responsible for drawing up and approving the SEPA rulebooks and other related documents.

### **PSD - Payment Services Directive**

EU legislation that paves the way for SEPA. The importance of the PSD is clearly illustrated in this quote by EU internal Market Commissioner Charles McCreevy: “No Payments Directive, no SEPA.” On 27 March, 2007, the EU ministers of 27 member states agreed to the Payments Services Directive Framework at their monthly Ecofin council in Brussels.

# STEP ONE: PERFORM AN IMPACT ANALYSIS

SEPA may impact many more aspects of your business than we have space to discuss here, and much depends on the specific situation. However, the areas discussed below are relevant to corporates active in several countries of the 'EU29':

- > cash management;
- > banking relationships;
- > supplier relationships;
- > IT System centralization;
- > organizational streamlining.

## **SEPA CLEARS THE WAY FOR IMPROVED CASH MANAGEMENT**

One of the clearest examples of the impact of SEPA is to be found in cash management, which will be profoundly affected in particular if your company is active in two or more countries of the EU29. SEPA generally leads to more transparency, more predictability and in particular to a higher degree of uniformity in the conditions and information formats that accompany cash flows. And improved Cash Management leads to increased revenue.

The greatest cost-savings opportunity for businesses lies in the possibilities for an optimized end-to-end payment process. The dream of most corporate treasurers is to attain full end-to-end STP, and automatic payment reconciliation, using a uniform reference data structure.

The rationalization that SEPA entails allows for a redesign of cash management processes, with potential savings that may well be greater than the original reduction of direct payment costs SEPA aimed at. This type of saving can only be brought about by the corporates themselves. We give a few examples below.

## **IDENTIFY IMPROVED OPPORTUNITIES FOR CENTRALIZING PAYMENT ACTIVITIES**

SEPA offers excellent opportunities for the Europe-wide centralization of payment activities. In many cases, the branch offices of multinationals have their own bank relations in the country in which they operate, usually managed locally. In SEPA, there is no necessity to work

with local banks for this purpose: In SEPA, payments can be executed at the same cost per transaction, under the same conditions and with the same data format as if it were a domestic payment.

This implies that a company has the option to concentrate all European activities involving, for instance, accounts payable or accounts receivable within a single unit at a European location of one's choosing, and thereby realizing considerable savings. This could, of course, also imply reducing the number of banking relations. Moreover, the increased number of transactions at the site of choice implies a stronger negotiating position and thereby results in lower transaction costs.

The same can be said for invoicing: SEPA provides improved opportunities to concentrate all invoicing processes at a single European centre. Moreover, SEPA also sets the necessary standards for electronic invoicing on a European scale. It goes without saying that utilizing these new invoicing opportunities is likely to lead to substantial savings on your invoicing costs.

## **IMPROVE CASH MANAGEMENT REVENUES**

The above examples deal mainly with the organizational aspects of cash management. However, SEPA also has much to offer when it comes to improving your company's cash management as such. Examples of this include SEPA's schemes for Credit Transfer. Although banks can offer their own products and services, they will do so on the basis of universal schemes that provide sets of rules, practices and standards agreed between payment service providers.

One consequence will be the guaranteed transfer terms (maximum 3 days) that will be mandatory throughout the SEPA countries. Currently, the terms of money transfers differ from country to country and from provider to provider. This is why cash management on a European scale currently implies setting large and costly margins to compensate for the uncertain terms of cash transfers, or at least for customizing these margins to the specific combinations of countries and providers.

## Rulebooks, Framework and Directive: The key components of SEPA

### Rulebooks

Two rulebooks have been designed for SEPA's giro payments. The rulebooks for both **SEPA Credit Transfer** and **SEPA Direct Debit** are the primary source for defining the rules and requirements of the two payment schemes.

### Framework

The **SEPA Cards Framework (SCF)** spells out high level principles and rules which – when implemented by banks, schemes, and other stakeholders – will enable European customers to use general purpose cards to make payments and cash withdrawals in euros throughout the SEPA area with the same ease and convenience as they do in their home country.

### Directive

The **Payment Services Directive (PSD)** provides the legal basis for SEPA and is intended to replace all current domestic legislation on the subject. The PSD was previously known as the New Legal Framework (NLF).

Corporate financial specialists in SEPA will be able to base their strategies on much better information on incoming and outgoing payments, which will improve insight into your company's cash flow, which, in turn, will result in better utilization of those funds. The result: increased revenue from improved cash management.

### EVALUATE BANKING RELATIONSHIPS

SEPA will be an excellent opportunity to re-evaluate the deals between your company and its banking relations, as their basis will change on many levels:

- > the new opportunities that SEPA offers for concentrating cash flows and cash flow related activities in single locations;
- > the increased number of transactions in the country in which the cash flows will be concentrated;
- > the lower cost per transaction per se that will be the ultimate effect of SEPA.

### CONSIDER FEWER BANKING RELATIONS

Provided a corporate is doing business with several banks in several countries, one obvious outcome of concentrating payment-related activities in single locations is the reduced number of banking relations. For instance, if the corporate has branches in seven countries, it may use the services of seven or more banks. SEPA will offer unprecedented opportunities to decrease this number and thereby cut costs. The banking relation that remains will process a greater number transactions, which will mean the corporate is in a stronger position to negotiate with the remaining bank.

One might get the impression that SEPA is bad news for banks. However, this is not the case. It is true that SEPA will require banks to offer exactly the same services in their local branches, regardless of their location. But in addition to the mandatory changes that SEPA requires, banks will have the opportunity to offer extended services to their customers – and SEPA will make it easier for banks to adopt the principle of 'one company, one product' at the entire eurozone level. As payment activities become more concentrated in single locations within the eurozone, the payments market will also see fewer corporate branches that require larger transaction volumes per customer. This also means that banks will also see new opportunities opening up for themselves.

**“AS A RESULT OF CONSOLIDATION OF ACCOUNTS AND RELATIONSHIPS, SEPA WILL HASTEN MOVES TOWARD PAYMENT FACTORIES AND SHARED SERVICE CENTRES.”** ROB DE RIDDER, HEAD OF SERVICES OPERATIONS, TRANSACTION BANKING ABN AMRO.

**LOWER CHARGES PER TRANSACTION MAY BE NEGOTIABLE**

Although banks will incur substantial initial costs to comply with SEPA, their cost per transaction will ultimately decrease as a result of the harmonization that SEPA entails. It will definitely be worthwhile for corporates with a considerable number of transactions, to take this lower cost per transaction into account when negotiating new deals with their bank.

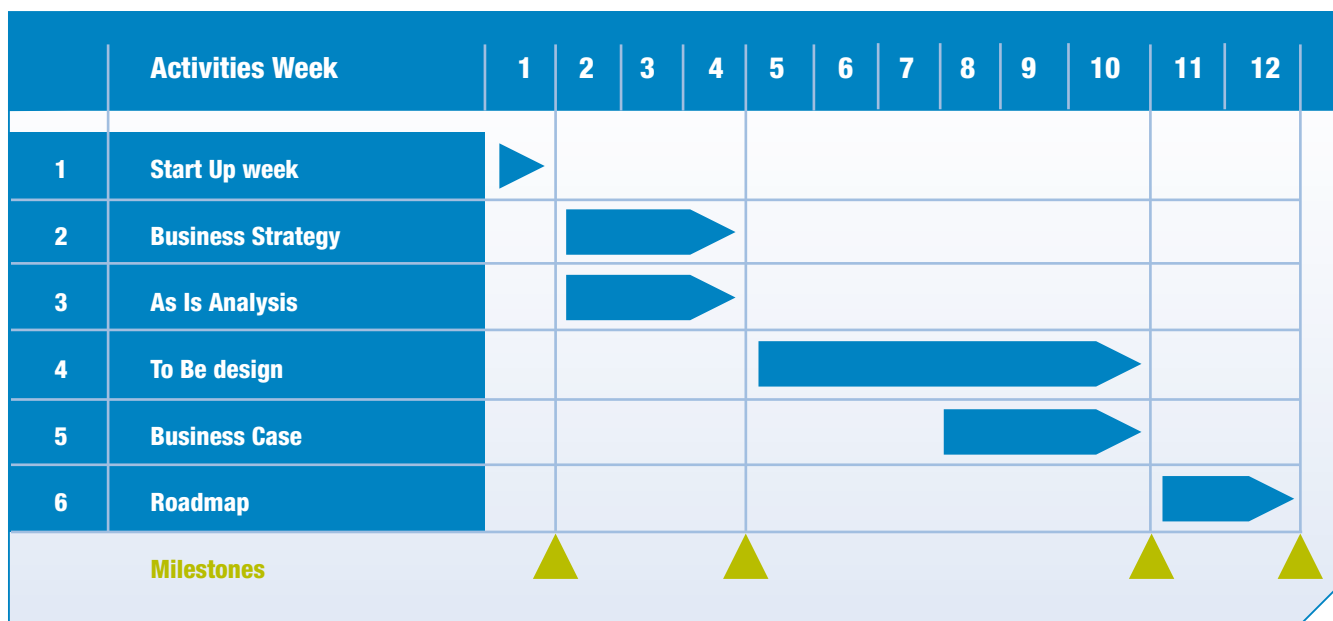
**TIME FOR NEW DEALS WITH YOUR SUPPLIERS**

Although SEPA schemes must be offered from 1 January 2008, the speed at which SEPA becomes a success depends on the market. However, corporates hoping to benefit from SEPA may opt to require their suppliers to work in accordance with SEPA. In this case, the necessary steps will have to be taken to enable suppliers to carry out the inevitable measures to implement changes in their own processes as a consequence of the SEPA rules.

**SEPA PAVES THE WAY FOR STREAMLINING THE ORGANIZATION**

The measures and changes described above indicate a more general course of action required by SEPA: to itemize the opportunities organizational streamlining will present as a result of SEPA. The choices depend entirely on the specifics of the corporate. The first step is to make a systematic list of the possibilities. As we have indicated, the potential gains are substantial.

An obvious example is the streamlining of cash flow related activities, which should lead to diminished complexity and increased transparency of financial processes. Credit transfer and direct debits within SEPA will be based on single schemes and unified data. The result will be a reduced back-office workload and cost. It also implies easier and faster financial control procedures.



# NEXT STEPS: PRIORITIZATION AND MAKING IT HAPPEN

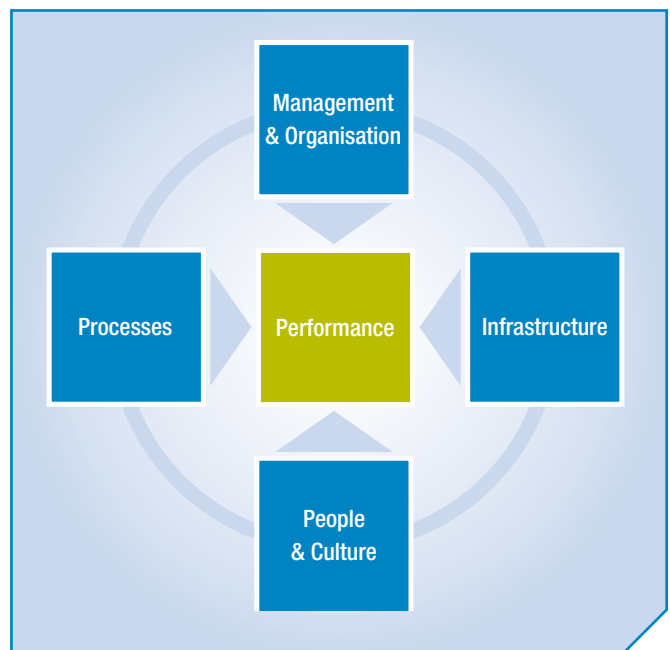
The preceding overview shows that SEPA offers considerable opportunities for cost savings and organizational streamlining. This means that in order to perform a manageable change process, management will have to define clear priorities. As each of the possibilities described above will have consequences in terms of organizational complexity and potential returns, prioritization will require the involvement of different stakeholders. Moreover, the listed potential sources of cost savings and increased revenue are linked to each other and therefore in order to manage their interdependency and to derive ultimate benefit, their timing needs careful planning. Another important aspect here is to identify possible 'quick wins'.

Once the management priorities have been clearly set, a high level implementation agenda can be drawn up, which outlines the changes that need to be made. This high level agenda also clarifies the logical links between the prioritized steps.

Once the high level implementation agenda is available, it is vital to get input on the different aspects of the plans from more key players in the organization. For this purpose, Atos Consulting has designed a SEPA Workshop that is supported by our 'Ervarium' – a computer-aided group thinking tool that supports processes for the simultaneous input of groups of professionals. Utilization of this tool dramatically increases the speed of decision making and implementation.

Finally, it is crucial in the roll-out to find and maintain the right balance between the various organizational aspects.

Atos Consulting has the expertise and resources to support you on an international level, to help you identify the opportunities that SEPA will bring, to build the supporting business case and to implement it. Atos Consulting is there to help you truly capitalize on the opportunities SEPA will generate.



**“THE EACT BOARD REITERATED ITS STRONG SUPPORT FOR THE INTRODUCTION OF SEPA IN LINE WITH THE TIMETABLE AGREED BY THE EUROPEAN AUTHORITIES AND THE EPC (EUROPEAN PAYMENTS COUNCIL)”**

**(EACT, SEPTEMBER 2006)**

## SEPA timetable

- 1999** Introduction of the euro as electronic currency.
- 2001** 'Regulation 2560' becomes effective: EC eliminates differences between charges for national and cross-border electronic payments within the EU.
- 2002** Introduction of euro banknotes and coins.
- 2006** EPC publishes Scheme Rulebooks for credit transfers (SCT) and direct debit (SDD). Rulebooks for SCT and SDD version 2.2. will be used as implementation versions.
- 2008** SEPA payment instruments will become operational in parallel with domestic electronic payment instruments. All banks must be able to offer SEPA scheme compliant products such as credit transfers, direct debits and debit card payments – alongside their current products.
- 2010** According to the EPC, SEPA transactions will have reached a sufficient critical mass to render the SEPA initiative irreversible. In other words: by 2010, the SEPA payment instruments will be dominant.
- 2011** SEPA payment instruments will replace all national payments within the eurozone.

Year	Situation	Actions leading towards SEPA
<b>1990 – 1992</b>	The European Commission (EC) intends to progress towards an integrated, open and efficient payments market	EC Paper – Making Payments in the Internal Market
<b>1993 – 1996</b>	European banks begin to develop new processes and services to deliver bulk payments, improve standards and services	European Commission for Banking Standards (ECBS) is founded
<b>1997 – 2000</b>	Due to the low number of cross-border processing transactions and the less efficient processing through high-value systems, high fees and slow execution speed remain in place	EC Financial Action Plan for a single financial services market
<b>2001</b>	European banks are still not proactive enough to realize a single payments market and are reluctant to migrate to less costly, more efficient cross-border payment solutions because of technical complexities and to protect their revenue streams	Introduction of EC Regulation 2560/2001
<b>2002</b>	European banks fear further EC regulation which would in turn trigger further revenue losses	White Paper "Euroland: Our Single Payment Area!" is published and the European Payments Council (EPC) is founded
<b>2002 – 2008</b>	Banks need to start preparations and become SEPA proof	Rulebooks, PSD (Legal framework), Testing, Reachability, Interoperability
<b>2008 – 2011</b>	Official start SEPA; (small and large) corporates and public administrators too have to become SEPA proof	Start with SCT, SDD and Debit Cards

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