From January 2008, a single market for euro payments will be realized in the form of the single euro payments area (SEPA). Banks in the eurozone and those countries that have signed up to the principles of SEPA will start offering new SEPA payment instruments, such as the SEPA Credit Transfer, which is designed to make cross-border payments in euros as efficient and cost effective as domestic payments.

In this special SEPA Guide, sponsored by the largest euro clearing bank in the world, Deutsche Bank, we outline the opportunities SEPA provides for both banks and corporates. For corporates the benefits are obvious: European payments harmonization, the opportunity to rationalize the number of local euro accounts they maintain, thereby aiding liquidity management and higher levels of standardization in terms of EU-wide payment instruments.

While there is considerable focus on implementation of SEPA, Deutsche Bank encourages its clients to view it not as an isolated incident but as an accelerator of opportunities and an enabler in terms of eliciting best practices in cash management when it comes to more streamlined account and liquidity management.

Although SEPA will place additional pressure on banks’ revenue streams, Deutsche Bank, which has already made the infrastructure and technology investments needed to comply with SEPA, views it as an opportunity. For banks that do not have the resources to invest in systems and technology, SEPA will be challenging, but banks like Deutsche are positioning themselves to offer their systems and technology to banks on an outsourced or white-label basis so that they can more effectively compete in the new payments landscape.

Deutsche Bank experts also outline what corporates should be doing to prepare for SEPA and how SEPA will benefit banks and corporates outside the EU, including Asian companies with an established physical presence in Europe or those merely holding non-resident accounts. Whether you are a bank or corporate within or outside the EU, we hope you find our SEPA Guide valuable in terms of helping you better understand the opportunities this landmark event represents for your business.

Anita Hawser  
Europe Editor  
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Finance directors and corporate treasurers are increasingly faced with the challenge of maximizing efficiencies within their financial supply chains while maintaining a tight control over risks. Indeed, cost reduction and increased control have been and continue to be the key drivers behind best practices in cash and treasury management. These include the centralization of structures using in-house banks, payment factories or shared service centers, the automation and rationalization of processes and the standardization of the operating environments. Technological advances and changes in the external landscape have certainly facilitated this efficiency drive.

With all the current debate around SEPA, it is not a surprise that it is sometimes viewed as a “stand-alone” initiative, outside the scope of the current trends. In some circles, SEPA is even viewed as a pure compliance topic with a specific focus around the use of IBAN and BIC in the future as the uniform account number and bank identifiers across the EU. As a result, the centralization of accounting and transaction-related tasks has been a challenge.

By standardizing and harmonizing processes across Europe, SEPA removes complexity in terms of clearing systems, account platforms and the need to maintain an account in each destination country, the legal framework, and most importantly the information accompanying each transaction. As such, it enables companies to standardize their operating environment across Europe. By doing so, it allows for greater economies of scale, thereby increasing the potential for centralized structures (such as in-house banks and payment factories.) In addition, the harmonization of the direct debit schemes under SEPA creates new possibilities for centralization—by means of collection factories—with value-creation potential across all industries, especially in the business-to-customer (B2C) sectors such as insurance, utilities and telecoms. In this respect, SEPA should not be viewed as an isolated event that standardizes the European payments landscape but, rather, as an accelerator of opportunities and value.

How can corporations best use the SEPA enabler to their advantage? The first step is to gain a full understanding of the SEPA proposition and more importantly to understand transaction detail fields and sizes, different return/reject codifications, as well as a wide array of legal jurisdictions. As a result, the centralization of accounting and transaction-related tasks has been a challenge.

The introduction of SEPA will act as an accelerator of centralization and rationalization within the corporate sector.

By Shahrokh Moinian
its limitations and how to deal with them. For a company looking to centralize its accounts payables/accounts receivables (AP/AR) and transaction processing into a shared services center for all of Europe and planning to use SEPA as a facilitator, the initial limitations are geography and currency. Indeed, SEPA covers only euro transactions currently used by 13 of the 27 EU countries. Moreover, it is very likely that this company still uses checks and certain types of bills of exchange if it operates in southern Europe, neither of which is within the scope of SEPA.

In addition, the roll-out of the new SEPA landscape is characterized by a certain degree of uncertainty. While the SEPA Credit Transfer will certainly go live in January 2008, the timing of the SEPA Direct Debit launch is somewhat dependent on the enactment of the Payment Services Directive (PSD) in each and every participating country following its late ratification in the European Parliament. Timing of the phase-out of the legacy instruments is also somewhat uncertain. All this makes planning and investment management difficult for a corporation.

With this in mind, how can a multinational company that wants to take advantage of the opportunities presented by SEPA actually reach its objectives, despite these limitations and uncertainties? This is where the capabilities of the banking partner take effect.

Deutsche Bank’s objective is to invest in solutions that help corporate clients reap the long-term benefits of SEPA as soon as possible, while insulating them from its shortfalls and incertitude. For example, the bank provides comprehensive solutions for centralized structures such as shared service centers to deal with SEPA and non-SEPA countries as well as non-SEPA instruments such as checks (via pan-European lockbox services), addressing any limitations.

Deutsche Bank also facilitates the SEPA transition by shielding clients from some of the country and timing disparities—for example, by offering the possibility of converting counterparty data and file formats to IBAN/BIC (including domestic payments) now and the SEPA Direct Debit format respectively, regardless of the various go-live timetables within SEPA. As a result, Deutsche Bank assumes responsibility for providing the respective conversions in both the pre-SEPA and SEPA environment, allowing clients to better manage their investment timelines and to realize the benefits at the earliest possible date. In short, there is no need to wait for SEPA to go live and to stabilize for corporations to realize the related benefits.

There are a number of success factors that a corporate should consider before selecting a banking partner in the new SEPA environment, such as its capacity to invest in technology, which is key to designing new value-added solutions that would ease the transition into SEPA. Moreover, it should have scale and robust operations through its existing platforms in Europe in order to provide the most competitive and harmonized pricing to its clients, which is a major corporate expectation.

In addition, a true SEPA bank should have an extensive network in countries throughout Europe and beyond—not just the SEPA countries. It should have a service-quality focus, which will become a major differentiator under the more harmonized SEPA environment. Finally, such a bank should have a thorough understanding of the corporate treasury requirements so that it could take a holistic view of the financial supply chain, putting SEPA in the bigger context and adding value across the chain.

Therefore, in the dynamic world of cash and treasury management and in the context of the acceleration opportunities presented by SEPA, it is more crucial than ever to establish a strategic partnership with a bank capable of delivering on the objective of maximizing efficiencies.

Shahrokh Moinian is head of corporates cash management sales, Western Europe, at Deutsche Bank.
EASTERN PROMISE

Asia, too, can benefit from the introduction of SEPA.

By Leif Simon

The introduction of the single euro payments area (SEPA) is relevant to an increasing number of corporations in many Asian countries. This is driven by the growing globalization of these economies either through international trade with or foreign direct investment in countries outside of their home region. For instance, according to Deutsche Bank research, Asia accounted for about 12% of world GDP but 19% of world trade in 2006. The trend toward globalization is further reinforced by the increasing number of Asian corporations in the Fortune 500. While this development is not new for a mature economy like Japan, it is now accelerating to include a number of emerging markets in Asia like China, India, South Korea, Taiwan, Singapore and Malaysia. Increasingly companies either are having more extensive trading relationships with Europe or are setting up operations in Europe as they become more exposed to the developments in the European payments arena.

Most CFOs and corporate treasurers tend to focus on traditional issues such as new accounting standards or a changing competitive environment. In fact, many companies are unaware of the potential opportunities and challenges that can result from SEPA. The implications of SEPA on companies will depend on their size, the number of (European) countries they operate in and the number of business relationships they maintain, but there is no doubt that it will have an impact one way or another.

Whether an Asian company has established a physical presence in Europe or is merely holding non-resident accounts in Europe to manage import and export activity, SEPA will provide an impetus for centralization and hence bears the potential to increase efficiencies for these corporations. By providing a framework of harmonized formats and processes backed by a common regulatory environment, SEPA will enable companies to consolidate their bank accounts and centralize their cash management activities in shared service centers or payment factories.

Even for companies that are mainly relying on cross-border transactions between Asia and Europe, SEPA may eventually lead to changes in how payments are made or received, as the use of the international banking account number (IBAN) and bank identifier code (BIC) may become ubiquitous over time, especially when dealing with counterparties located in Europe. For electronic payments to Europe from Asia, there is currently no obligation to use IBAN and BIC; however, it is strongly recommended to use them whenever making payments toward Europe, as banks may charge repair fees if this information is not contained.

With the introduction of SEPA, Deutsche Bank believes it is important for companies in Asia to fully understand SEPA and how it will impact their payables and receivables processes. This will enable companies to maximize the opportunities offered by SEPA and hence reap the benefits to the fullest extent. Deutsche Bank is an advocate of SEPA and will combine in-house and vendor solutions with new standard software for core processing to deliver an integrated SEPA solution. With SEPA, Deutsche Bank and its clients are expected to benefit from improved cost efficiency in euro payments processing.

Leif Simon is director, product management, cash management, Asia, at Deutsche Bank.
Single Euro Payments Area

SEPA GUIDE 2007
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Anita Hawser
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From January 2008, the banking industry will start taking the first formal steps toward realizing European regulators’ vision of a single euro payments area (SEPA), or single market for payments within Europe. It is a vision that dates back to the early 1990s when the European Commission issued various directives calling for greater transparency and efficiency of cross-border credit transfers within the eurozone and for cross-border euro transfers to be priced the same as domestic payments.

As of January, banks will offer new instruments such as SEPA credit transfers for cross-border payments of up to €50,000 (the €50,000 limit will eventually be lifted) within the 13 eurozone countries and those European Economic Area countries that have signed up to the principles of SEPA. But as the passing of the Payment Services Directive (PSD), which provides the legal framework for the realization of SEPA, was delayed, SEPA direct debits (SDD) are unlikely to be offered by banks until January 1, 2009. November 2009 is the deadline for the PSD to be fully implemented by all EU member states into national law.

Simon Bailey, director of payments, global financial services, at consultant LogicaCMG, explains that the PSD is fundamental to the implementation of SDD as it establishes the legal framework for ensuring consistent implementation across the EU, whereas today different countries have different rules regarding direct debits. The PSD provides the framework for “transparency of pricing,” which means customers must be able to see the price of a payment before entering into a transaction.

“The transformational change in euro payments with the PSD and SEPA is definitely under way,” says Bailey, adding that the benefits for corporates include the ability to consolidate euro accounts and banking providers, as well as establishing the “building blocks” for greater end-to-end automation in the financial supply chain. The SEPA transition period is meant to run from 2008 until 2010, when national payment infrastructures will be switched off and cross-border payment infrastructures must be SEPA-compliant for both domestic and cross-border payments.

Most observers believe that re-engineering the European payments landscape will take longer than the formal two-year transition period. “Banks cannot force customers to move to the new SEPA instruments,” notes Bailey, adding that the danger is that a “mini-SEPA” could occur from 2010, where existing national payment instruments co-exist alongside SEPA instruments. “There is pressure on national central banks and national banking associations to put in place migration plans to switch off domestic payment instruments,” he continues, “yet the maturity and feasibility of these plans varies.”

In an effort to drive adoption of the new SEPA payment instruments, the European Commission committed itself to using SEPA-compliant treasury instruments from January. However, Chris Skinner, CEO of payments think tank Balatro, says that local authorities and corporates in member states have yet to follow suit.

In the run-up to the January deadline, banks must also educate consumers and corporates about the new SEPA instruments as well as the use of bank identifier codes (BICs) and international bank account numbers (IBANs). BICs and IBANs are mandatory for all cross-border euro payments within the EU/EEA (European Economic Area) and are meant to facilitate the straight-through processing of payments. “Banks have been saying to corporates that they need to use BICs and IBANs, but corporates don’t fully understand why they need too,” says Skinner.
Finance directors and corporate treasurers are increasingly faced with the challenge of maximizing efficiencies within their financial supply chains while maintaining a tight control over risks. Indeed, cost reduction and increased control have been and continue to be the key drivers behind best practices in cash and treasury management. These include the centralization of structures using in-house banks, payment factories or shared service centers, the automation and rationalization of processes and the standardization of the operating environments. Technological advances and changes in the external landscape have certainly facilitated this efficiency drive.

With all the current debate around SEPA, it is not a surprise that it is sometimes viewed as a “stand-alone” initiative, outside the scope of the current trends. In some circles, SEPA is even viewed as a pure compliance topic with a specific focus around the use of IBAN and BIC in the future as the uniform account number and bank identifiers across the EU.

In reality, however, SEPA is not an “event” in itself but, rather, an enabler, facilitating the conception of best-practice cash and treasury management and even accelerating its implementation. For many years, corporations operating in numerous countries in Europe have had to deal with multiple payment instruments and formats, a variety of transaction detail fields and sizes, different return/reject codifications, as well as a wide array of legal jurisdictions. As a result, the centralization of accounting and transaction-related tasks has been a challenge.

By standardizing and harmonizing processes across Europe, SEPA removes complexity in terms of clearing systems, account platforms and the need to maintain an account in each destination country, the legal framework, and most importantly the information accompanying each transaction. As such, it enables companies to standardize their operating environment across Europe. By doing so, it allows for greater economies of scale, thereby increasing the potential for centralized structures (such as in-house banks and payment factories.) In addition, the harmonization of the direct debit schemes under SEPA creates new possibilities for centralization—by means of collection factories—with value-creation potential across all industries, especially in the business-to-customer (B2C) sectors such as insurance, utilities and telecoms. In this respect, SEPA should not be viewed as an isolated event that standardizes the European payments landscape but, rather, as an accelerator of opportunities and value.

How can corporations best use the SEPA enabler to their advantage? The first step is to gain a full understanding of the SEPA proposition and more importantly to understand...
its limitations and how to deal with them. For a company looking to centralize its accounts payables/accounts receivables (AP/AR) and transaction processing into a shared services center for all of Europe and planning to use SEPA as a facilitator, the initial limitations are geography and currency. Indeed, SEPA covers only euro transactions currently used by 13 of the 27 EU countries. Moreover, it is very likely that this company still uses checks and certain types of bills of exchange if it operates in southern Europe, neither of which is within the scope of SEPA.

In addition, the roll-out of the new SEPA landscape is characterized by a certain degree of uncertainty. While the SEPA Credit Transfer will certainly go live in January 2008, the timing of the SEPA Direct Debit launch is somewhat dependent on the enactment of the Payment Services Directive (PSD) in each and every participating country following its late ratification in the European Parliament. Timing of the phase-out of the legacy instruments is also somewhat uncertain. All this makes planning and investment management difficult for a corporation.

With this in mind, how can a multinational company that wants to take advantage of the opportunities presented by SEPA actually reach its objectives, despite these limitations and uncertainties? This is where the capabilities of the banking partner take effect.

Deutsche Bank’s objective is to invest in solutions that help corporate clients reap the long-term benefits of SEPA as soon as possible, while insulating them from its shortfalls and incertitude. For example, the bank provides comprehensive solutions for centralized structures such as shared service centers to deal with SEPA and non-SEPA countries as well as non-SEPA instruments such as checks (via pan-European lockbox services), addressing any limitations.

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There are a number of success factors that a corporate should consider before selecting a banking partner in the new SEPA environment, such as its capacity to invest in technology, which is key to designing new value-added solutions that would ease the transition into SEPA. Moreover, it should have scale and robust operations through its existing platforms in Europe in order to provide the most competitive and harmonized pricing to its clients, which is a major corporate expectation.

In addition, a true SEPA bank should have an extensive network in countries throughout Europe and beyond—not just the SEPA countries. It should have a service-quality focus, which will become a major differentiator under the more harmonized SEPA environment. Finally, such a bank should have a thorough understanding of the corporate treasury requirements so that it could take a holistic view of the financial supply chain, putting SEPA in the bigger context and adding value across the chain.

Therefore, in the dynamic world of cash and treasury management and in the context of the acceleration opportunities presented by SEPA, it is more crucial than ever to establish a strategic partnership with a bank capable of delivering on the objective of maximizing efficiencies.

Shahrokh Moinian is head of corporates cash management sales, Western Europe, at Deutsche Bank.
JOINING FORCES

The single euro payments area (SEPA) will affect all banks—large and small, European or non-European—but many have yet to make the required changes. Partnering may be the answer.

By Paul Camp

In the past few months much of the attention related to SEPA has focused on the benefits and challenges facing the corporate sector—almost assuming the banks are already on board. This, however, is not entirely the case. Of course the largest banks, such as Deutsche Bank, view SEPA as an opportunity. Their aim is to lead the charge with respect to standardizing payments regimes across the eurozone and for euro payments worldwide. Yet smaller and medium-sized financial institutions are more challenged. They will, of course, have customers that require payments services—giving them no choice but to embrace SEPA. An example could be a retail or corporate customer banking with a small Financial Institution (FI) who is requested by his commercial counterpart (e.g. a utility provider) to receive a SEPA credit transfer (SCT) or a SEPA direct debit (SDD).

Smaller FIs Challenged

For smaller and medium-sized FIs, SEPA does present a significant challenge. In order to comply, the average European bank is obliged to make huge investments in systems and technology, create and manage significant project teams and dedicate senior management attention, while at the same time drastically reduce their prices. And SEPA is only one of several recent regulatory pressures on FIs which, along with anti-money laundering (AML) and know your customer (KYC) requirements, create costs and processes that undermine efficiency. The difficulty for these banks is in justifying a business case for further investment in their payment infrastructure in such a volatile market environment, while responding to the pressure of creating a competitive advantage that will keep them ahead of their local and regional rivals, as well as new market entrants.

However, smaller and medium-sized FIs are not necessarily required to build fully-fledged SEPA solutions themselves as full functionality can be reached by partnering with a larger institution. As the largest euro clearing bank in the world, Deutsche Bank is fully committed to SEPA and has made significant investments to deliver SEPA solutions as of Day 1. The kind of solutions that are offered to FIs range from simple connectivity and light partner banking services through front-end white labelling, to more comprehensive payment infrastructure solutions.

“The kind of solutions that are offered to FIs range from simple connectivity and light partner banking services through front-end white labelling, to more comprehensive payment infrastructure solutions.”

As expected, a number of RfIs and RfPs have come from financial institutions recently focusing on product functionality and cost reduction/avoidance at the same time. This proves that in the light of SEPA, banks are realizing that in order to remain competitive, they need to make use of the
products and cost structures developed by others, and made feasible through economies of scale. The cost aspect is particularly important as recent indications have shown that all SEPA stakeholders (e.g., some industry sectors as well as public institutions) will not embrace SEPA from the very beginning and at the same time. Consequently, banks will be forced to maintain parallel infrastructures longer than initially foreseen and to deal with problems that may arise from differing stages of implementation. In addition to its range of SEPA solutions, Deutsche Bank is well prepared to provide a seamless client migration process.

**Beyond The Eurozone And The Euro**

Of course, the impact of SEPA will also be felt beyond the eurozone. The euro has risen to become both a domestic and a global currency, and with international payments rapidly standardizing around the two leading world currencies—the US dollar and the euro. This means payments to/from countries outside of the eurozone out of Europe are being made in euros more frequently than before. Indeed, there is a misconception that SEPA will not impact banks outside the eurozone, but this is not the case. If a financial institution is conducting a payment in euros, whether in Asia, the Americas or elsewhere, they will be affected. In fact, some European banks may be too focused on meeting SEPA requirements and failing to improve payments products for banks located outside of the eurozone. An even worse scenario would be the attempt to try to impose European standards to international payments. Indeed, some banks have insisted on the use of IBANs for payments to/from countries outside Europe.

Fundamentally, FIs will be looking for global payments services and products that can seamlessly handle both euro and US dollar payments with the same global levels of service, and this is a clear opportunity for payments providers to deliver greater added value to clients by bringing to the market payments products and services that are equivalent, whether payments are in US dollars or euros; thus facilitating international payments flows.

**Partnership Can Be The Key To Success**

Among financial institutions, there is a thirst for knowledge and some level of confusion regarding both SEPA and other regulatory driven initiatives—both within and outside of the eurozone. But for leading FIs, payments are a core business, both in euros and in US dollars, and they can take on the burden of complex procedures for the client. As a case in point, Deutsche Bank provides payments services to banks all over the world and is shaping the payments market. It is the rightful role of a global player—to do the “heavy lifting” for standardization initiatives such as SEPA. As with other similar initiatives it is Deutsche Bank’s overall aim to enable the success of our FI clients in their respective markets and/or segments.

By leveraging Deutsche Bank’s scale and scope clients benefit from low per-unit costs, while at the same time they can take advantage of sophisticated product sets. This is a basic message, but the market is beginning to embrace it. At a time when the market is in a state of flux, this type of assurance should be welcome news, especially for small and medium-sized financial institutions.

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Camp: “Smaller FIs will be looking for global payments services...that can seamlessly handle both euro and US dollar payments”

“It is the rightful role of a global player—to do the ‘heavy lifting’ for standardization initiatives such as SEPA.”

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Paul Camp is head of cash management, financial institutions, global transaction banking, at Deutsche Bank.
GLOBAL IMPACT

The introduction of the single euro payments area (SEPA) is relevant to any non-Europe-based corporation or financial institution with payment activities in Europe. Although this may seem like a simple requirement, there are a number of complexities of which corporations and their banks need to be aware. Deutsche Bank, a premier global bank and the leading transactor of money transfers in euros (RTGS+/Target/EBA), brought together its leading payment experts for a discussion on the opportunities and challenges that will result from SEPA.

What should corporations and financial institutions outside of SEPA be aware of?
Harold Young, head of payments, global transaction banking – cash management, Deutsche Bank: First and foremost, corporations and financial institutions must look to the most credible sources for guidance, advice and updates on the SEPA initiative. With Deutsche Bank executives playing key roles as chairman of the European Bankers Association and working group chairmanship of the European Payments Council, Deutsche Bank has unique insights into not just the end results of decisions taken around how to best implement and leverage the various components of SEPA, but also the thought process and rationales behind these end-results and a clear sense of where the current trajectory of events will lead us.

What advantages will result from euro payments harmonization for corporate clients?
Karoline von Richthofen, head of corporate high value payments, global transaction banking – cash management, Deutsche Bank: Especially for corporations with operations in numerous EU countries, the introduction of the single payments area will have many advantages. These benefits include the potential to consolidate payment accounts in one country, improve working capital management and increase efficiencies, particularly in reconciliation processes, so that ultimately the costs for making euro payments across the EU will decrease. With harmonized formats, processing rules and regulation throughout the EU, SEPA will considerably facilitate the set-up of centralized cash management functions such as shared service centers and payment/collection factories. Therefore, as a result of SEPA, we expect to see an increase in such centralized structures. Also, the new direct debit as the first collection instrument that can be used at a pan-European level may represent an opportunity for certain corporations to expand their business beyond individual local markets to the entire European region.

How should corporations be preparing for SEPA?
von Richthofen: We recommend that all corporations include SEPA in their strategic planning and that they begin evaluating potential rationalization opportunities related to their specific European set-up. At the same time, an impact
analysis to determine potential changes on treasury and AP/AR systems and all internal processes should be initiated. Also, it is particularly important to assess the impact of SEPA on existing and newly planned projects to avoid additional costs for later adjusting such projects to accommodate the new SEPA environment. Independent of a corporation’s own SEPA migration planning, it is recommended to understand the potential consequences if any of its business partners migrate to SEPA earlier than the company itself.

What changes in account structure will SEPA enable for corporations?
Arthur Brieske, head of global ACH and db-worldPAS, global transaction banking – cash management, Deutsche Bank: The SEPA Payment Services Directive, new harmonized instruments, standardized formats, rules, schemes and cross-border euro settlement pricing will permit corporations to rationalize and re-engineer existing account structures within the eurozone. However, account structure changes will ultimately depend on the legal, tax and regulatory considerations specific to a corporation’s operating environment. SEPA will enable most corporations to consolidate operational bank accounts into a more simplified structure, including liquidity management. Companies will be able to maintain single country accounts for accounts payable and receivable activities. In some cases, concentration of all euro activity into a single primary account within a single country will be possible for all activity across the eurozone. Additionally, SEPA will allow centralized operating structures such as shared service centers (SSCs) to consolidate more activities into existing euro accounts. SSCs have been processing centralized payments for a number of years now, and with the introduction of the SEPA Direct Debit (SDD) this centralization opportunity will be extended to the accounts receivable side of the business for collections. Keeping in mind how critical efficient collection processing is to working capital management and cash flow, a centralized collections activity will provide benefits and a new streamlined structure for liquidity management, such as improved cash visibility across the entire eurozone—leading to better investment decisions.

What impact will SEPA have on financial institutions outside of SEPA?
Young: SEPA offers financial institutions that traditionally found it difficult to compete for corporate cash management business due to small branch networks the opportunity to leverage one consolidated payments channel. However, first they need to invest in their own internal systems to allow the processing of SEPA transactions. This will require significant commitment of time and money at a point when banks are confronting increased competitive pressure. Banks will need to review their individual business cases to determine whether to include SEPA in their long-term payments strategy. Many banks will turn to outsourcing, relying on a partner’s technology platform for processing SEPA-related transactions. Banks such as Deutsche Bank, with sufficient scale to make investments in technology to accommodate SEPA and other regulatory changes, will succeed in this highly competitive market by bringing efficiencies to their clients globally.
The introduction of the single euro payments area (SEPA) is relevant to an increasing number of corporations in many Asian countries. This is driven by the growing globalization of these economies either through international trade with or foreign direct investment in countries outside of their home region. For instance, according to Deutsche Bank research, Asia accounted for about 12% of world GDP but 19% of world trade in 2006. The trend toward globalization is further reinforced by the increasing number of Asian corporations in the Fortune 500. While this development is not new for a mature economy like Japan, it is now accelerating to include a number of emerging markets in Asia like China, India, South Korea, Taiwan, Singapore and Malaysia. Increasingly companies either are having more extensive trading relationships with Europe or are setting up operations in Europe as they become more exposed to the developments in the European payments arena.

Most CFOs and corporate treasurers tend to focus on traditional issues such as new accounting standards or a changing competitive environment. In fact, many companies are unaware of the potential opportunities and challenges that can result from SEPA. The implications of SEPA on companies will depend on their size, the number of (European) countries they operate in and the number of business relationships they maintain, but there is no doubt that it will have an impact one way or another.

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With the introduction of SEPA, Deutsche Bank believes it is important for companies in Asia to fully understand SEPA and how it will impact their payables and receivables processes. This will enable companies to maximize the opportunities offered by SEPA and hence reap the benefits to the fullest extent. Deutsche Bank is an advocate of SEPA and will combine in-house and vendor solutions with new standard software for core processing to deliver an integrated SEPA solution. With SEPA, Deutsche Bank and its clients are expected to benefit from improved cost efficiency in euro payments processing.

Leif Simon is director, product management, cash management, Asia, at Deutsche Bank.
SEPA ANSWERS

Deutsche Bank answers some commonly asked questions about SEPA.

What is meant by SEPA?
The single euro payments area (SEPA) initiative is about the creation of a zone for the euro (pertaining to bulk ACH payments and collections) in which all electronic payments are considered domestic, whereby there is no difference between national and international payments inside this area.

Who is driving this initiative?
The commercial framework for payment instruments has been developed by the European Payments Council (EPC), the decision-making and co-ordination body of the European banking industry in relation to payments. Established in June 2002, its purpose is to support and promote the creation a single, harmonized, open and interoperable European “domestic” payments market achieved through industry self-regulation. The EPC is committed to delivering three pan-European payment instruments: credit transfers (SCT—SEPA credit transfer), direct debits (SDD—SEPA direct debit) as well as a SEPA cards framework. The European Commission has established the legal foundation through the Payment Services Directive (PSD, ratified by the European Parliament in April 2007).

To provide straight-through processing (STP) for SEPA processing, the EPC has defined standard formats based on XML ISO 20022 PACS messages as mandatory for bank-to-bank messages. In addition, the EPC has stipulated that customer-to-bank message types (XML ISO 20022 PAIN—payment initiation) are highly recommended.

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When is SEPA due to go live?
The SEPA delivery date is January 2008, when banks will start offering SEPA products and migrating customers over to the new payment instruments. By 2010 a so-called “critical mass” should be operating on the SEPA instruments. However, due to late ratification of the PSD by the European regulator and the required implementation steps, it is expected that SDD products will not be available before 2009 following country-by-country adoption of the directive into local law.

Where is the area of focus?
SEPA affects all banks operating in the 27 EU member states, as well as the three European Economic Area countries (Liechtenstein, Iceland and Norway) and Switzerland. However, the focus is on the 13 eurozone countries that will go live as of January 2008. The remaining 14 affected countries will participate with their euro payments.

Why is SEPA being introduced?
The SEPA initiative aims to improve the efficiency of international payments and also to develop common financial instruments, standards, procedures and infrastructure to enable economies of scale. Considered in a wider context, therefore, SEPA is also seen as the key enabler to achieve broader commercial harmonization within the eurozone, leading to increased cross-border movement of goods and services.
GLOBAL IMPACT

The introduction of the single euro payments area (SEPA) is relevant to any non-Europe-based corporation or financial institution with payment activities in Europe. Although this may seem like a simple requirement, there are a number of complexities of which corporations and their banks need to be aware. Deutsche Bank, a premier global bank and the leading transactor of money transfers in euros (RTGS+/Target/EBA), brought together its leading payment experts for a discussion on the opportunities and challenges that will result from SEPA.

What should corporations and financial institutions outside of SEPA be aware of?
Harold Young, head of payments, global transaction banking – cash management, Deutsche Bank: First and foremost, corporations and financial institutions must look to the most credible sources for guidance, advice and updates on the SEPA initiative. With Deutsche Bank executives playing key roles as chairman of the European Bankers Association and working group chairmanship of the European Payments Council, Deutsche Bank has unique insights into not just the end results of decisions taken around how to best implement and leverage the various components of SEPA, but also the thought process and rationales behind these end-results and a clear sense of where the current trajectory of events will lead us.

What advantages will result from euro payments harmonization for corporate clients?
Karoline von Richthofen, head of corporate high value payments, global transaction banking – cash management, Deutsche Bank: Especially for corporations with operations in numerous EU countries, the introduction of the single payments area will have many advantages. These benefits include the potential to consolidate payment accounts in one country, improve working capital management and increase efficiencies, particularly in reconciliation processes, so that ultimately the costs for making euro payments across the EU will decrease. With harmonized formats, processing rules and regulation throughout the EU, SEPA will considerably facilitate the set-up of centralized cash management functions such as shared service centers and payment/collection factories. Therefore, as a result of SEPA, we expect to see an increase in such centralized structures. Also, the new direct debit as the first collection instrument that can be used at a pan-European level may represent an opportunity for certain corporations to expand their business beyond individual local markets to the entire European region.

How should corporations be preparing for SEPA?
von Richthofen: We recommend that all corporations include SEPA in their strategic planning and that they begin evaluating potential rationalization opportunities related to their specific European set-up. At the same time, an impact
analysis to determine potential changes on treasury and AP/AR systems and all internal processes should be initiated. Also, it is particularly important to assess the impact of SEPA on existing and newly planned projects to avoid additional costs for later adjusting such projects to accommodate the new SEPA environment. Independent of a corporation’s own SEPA migration planning, it is recommended to understand the potential consequences if any of its business partners migrate to SEPA earlier than the company itself.

What changes in account structure will SEPA enable for corporations?
Arthur Brieske, head of global ACH and db-worldPAS, global transaction banking – cash management, Deutsche Bank: The SEPA Payment Services Directive, new harmonized instruments, standardized formats, rules, schemes and cross-border euro settlement pricing will permit corporations to rationalize and re-engineer existing account structures within the eurozone. However, account structure changes will ultimately depend on the legal, tax and regulatory considerations specific to a corporation’s operating environment. SEPA will enable most corporations to consolidate operational bank accounts into a more simplified structure, including liquidity management. Companies will be able to maintain single country accounts for accounts payable and receivable activities. In some cases, concentration of all euro activity into a single primary account within a single country will be possible for all activity across the eurozone. Additionally, SEPA will allow centralized operating structures such as shared service centers (SSCs) to consolidate more activities into existing euro accounts. SSCs have been processing centralized payments for a number of years now, and with the introduction of the SEPA Direct Debit (SDD) this centralization opportunity will be extend-
ed to the accounts receivable side of the business for collections. Keeping in mind how critical efficient collection processing is to working capital management and cash flow, a centralized collections activity will provide benefits and a new streamlined structure for liquidity management, such as improved cash visibility across the entire eurozone—leading to better investment decisions.

What impact will SEPA have on financial institutions outside of SEPA?
Young: SEPA offers financial institutions that traditionally found it difficult to compete for corporate cash management business due to small branch networks the opportunity to leverage one consolidated payments channel. However, first they need to invest in their own internal systems to allow the processing of SEPA transactions. This will require significant commitment of time and money at a point when banks are confronting increased competitive pressure. Banks will need to review their individual business cases to determine whether to include SEPA in their long-term payments strategy. Many banks will turn to outsourcing, relying on a partner’s technology platform for processing SEPA-related transactions. Banks such as Deutsche Bank, with sufficient scale to make investments in technology to accommodate SEPA and other regulatory changes, will succeed in this highly competitive market by bringing efficiencies to their clients globally.
From January 2008, the banking industry will start taking the first formal steps toward realizing European regulators’ vision of a single euro payments area (SEPA), or single market for payments within Europe. It is a vision that dates back to the early 1990s when the European Commission issued various directives calling for greater transparency and efficiency of cross-border credit transfers within the eurozone and for cross-border euro transfers to be priced the same as domestic payments.

As of January, banks will offer new instruments such as SEPA credit transfers for cross-border payments of up to €50,000 (the €50,000 limit will eventually be lifted) within the 13 eurozone countries and those European Economic Area countries that have signed up to the principles of SEPA. But as the passing of the Payment Services Directive (PSD), which provides the legal framework for the realization of SEPA, was delayed, SEPA direct debits (SDD) are unlikely to be offered by banks until January 1, 2009. November 2009 is the deadline for the PSD to be fully implemented by all EU member states into national law.

Simon Bailey, director of payments, global financial services, at consultant LogicaCMG, explains that the PSD is fundamental to the implementation of SDD as it establishes the legal framework for ensuring consistent implementation across the EU, whereas today different countries have different rules regarding direct debits. The PSD provides the framework for “transparency of pricing,” which means customers must be able to see the price of a payment before entering into a transaction.

“The transformational change in euro payments with the PSD and SEPA is definitely under way,” says Bailey, adding that the benefits for corporates include the ability to consolidate euro accounts and banking providers, as well as establishing the “building blocks” for greater end-to-end automation in the financial supply chain. The SEPA transition period is meant to run from 2008 until 2010, when national payment infrastructures will be switched off and cross-border payment infrastructures must be SEPA-compliant for both domestic and cross-border payments.

Most observers believe that re-engineering the European payments landscape will take longer than the formal two-year transition period. “Banks cannot force customers to move to the new SEPA instruments,” notes Bailey, adding that the danger is that a “mini-SEPA” could occur from 2010, where existing national payment instruments co-exist alongside SEPA instruments. “There is pressure on national central banks and national banking associations to put in place migration plans to switch off domestic payment instruments,” he continues, “yet the maturity and feasibility of these plans varies.”

In an effort to drive adoption of the new SEPA payment instruments, the European Commission committed itself to using SEPA-compliant treasury instruments from January. However, Chris Skinner, CEO of payments think tank Balatro, says that local authorities and corporates in member states have yet to follow suit.

In the run-up to the January deadline, banks must also educate consumers and corporates about the new SEPA instruments as well as the use of bank identifier codes (BICs) and international bank account numbers (IBANs). BICs and IBANs are mandatory for all cross-border euro payments within the EU/EEA (European Economic Area) and are meant to facilitate the straight-through processing of payments.

“Banks have been saying to corporates that they need to use BICs and IBANs, but corporates don’t fully understand why they need too,” says Skinner. ■

BENEFITS OF BEING SINGLE

The transition to a single euro payments area is already well under way, but corporations still have a lot of work to do to prepare for the impending changes.

By Anita Hawser

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In the past few months much of the attention related to SEPA has focused on the benefits and challenges facing the corporate sector—almost assuming the banks are already on board. This, however, is not entirely the case. Of course the largest banks, such as Deutsche Bank, view SEPA as an opportunity. Their aim is to lead the charge with respect to standardizing payments regimes across the eurozone and for euro payments worldwide. Yet smaller and medium-sized financial institutions are more challenged. They will, of course, have customers that require payments services—giving them no choice but to embrace SEPA. An example could be a retail or corporate customer banking with a small Financial Institution (FI) who is requested by his commercial counterpart (e.g. a utility provider) to receive a SEPA credit transfer (SCT) or a SEPA direct debit (SDD).

Smaller FIs Challenged

For smaller and medium-sized FIs, SEPA does present a significant challenge. In order to comply, the average European bank is obliged to make huge investments in systems and technology, create and manage significant project teams and dedicate senior management attention, while at the same time drastically reduce their prices. And SEPA is only one of several recent regulatory pressures on FIs which, along with anti-money laundering (AML) and know your customer (KYC) requirements, create costs and processes that undermine efficiency. The difficulty for these banks is in justifying a business case for further investment in their payment infrastructure in such a volatile market environment, while responding to the pressure of creating a competitive advantage that will keep them ahead of their local and regional rivals, as well as new market entrants.

However, smaller and medium-sized FIs are not necessarily required to build fully-fledged SEPA solutions themselves as full functionality can be reached by partnering with a larger institution. As the largest euro clearing bank in the world, Deutsche Bank is fully committed to SEPA and has made significant investments to deliver SEPA solutions as of Day 1. The kind of solutions that are offered to FIs range from simple connectivity and light partner banking services through front-end white labelling, to more comprehensive payment infrastructure solutions. The underlying aim is to work collaboratively with clients to offer them a platform and a service that can meet their respective needs and make them successful and compliant in relation to SEPA, with limited investment and effort on their side.

As expected, a number of RfIs and RfPs have come from financial institutions recently focusing on product functionality and cost reduction/avoidance at the same time. This proves that in the light of SEPA, banks are realizing that in order to remain competitive, they need to make use of the
products and cost structures developed by others, and made feasible through economies of scale. The cost aspect is particularly important as recent indications have shown that all SEPA stakeholders (e.g., some industry sectors as well as public institutions) will not embrace SEPA from the very beginning and at the same time. Consequently, banks will be forced to maintain parallel infrastructures longer than initially foreseen and to deal with problems that may arise from differing stages of implementation. In addition to its range of SEPA solutions, Deutsche Bank is well prepared to provide a seamless client migration process.

**Beyond The Eurozone And The Euro**

Of course, the impact of SEPA will also be felt beyond the eurozone. The euro has risen to become both a domestic and a global currency, and with international payments rapidly standardizing around the two leading world currencies—the US dollar and the euro. This means payments to/from countries outside of the eurozone out of Europe are being made in euros more frequently than before. Indeed, there is a misconception that SEPA will not impact banks outside the eurozone, but this is not the case. If a financial institution is conducting a payment in euros, whether in Asia, the Americas or elsewhere, they will be affected. In fact, some European banks may be too focused on meeting SEPA requirements and failing to improve payments products for banks located outside of the eurozone. An even worse scenario would be the attempt to try to impose European standards to international payments. Indeed, some banks have insisted on the use of IBANs for payments to/from countries outside Europe.

Fundamentally, FIs will be looking for global payments services and products that can seamlessly handle both euro and US dollar payments with the same global levels of service, and this is a clear opportunity for payments providers to deliver greater added value to clients by bringing to the market payments products and services that are equivalent, whether payments are in US dollars or euros; thus facilitating international payments flows.

**Partnership Can Be The Key To Success**

Among financial institutions, there is a thirst for knowledge and some level of confusion regarding both SEPA and other regulatory driven initiatives—both within and outside of the eurozone. But for leading FIs, payments are a core business, both in euros and in US dollars, and they can take on the burden of complex procedures for the client. As a case in point, Deutsche Bank provides payments services to banks all over the world and is shaping the payments market. It is the rightful role of a global player—to do the “heavy lifting” for standardization initiatives such as SEPA. As with other similar initiatives it is Deutsche Bank’s overall aim to enable the success of our FI clients in their respective markets and/or segments.

By leveraging Deutsche Bank’s scale and scope clients benefit from low per-unit costs, while at the same time they can take advantage of sophisticated product sets.

This is a basic message, but the market is beginning to embrace it. At a time when the market is in a state of flux, this type of assurance should be welcome news, especially for small and medium-sized financial institutions.

Paul Camp is head of cash management, financial institutions, global transaction banking, at Deutsche Bank.
FAQs

SEPA ANSWERS

Deutsche Bank answers some commonly asked questions about SEPA.

What is meant by SEPA?
The single euro payments area (SEPA) initiative is about the creation of a zone for the euro (pertaining to bulk ACH payments and collections) in which all electronic payments are considered domestic, whereby there is no difference between national and international payments inside this area.

Who is driving this initiative?
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