Institute of Credit Management Consulting Newsletter

'Single European Payment Area'

Update from the

Institute of Credit Management

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Institute of Credit Management
Consulting – Newsletter

Single European Payment Area (SEPA) Update

SEPA Overview

The ***Single Euro Payments Area*** (SEPA) is an initiative of the European banking industry that will standardise and simplify all electronic payments across the euro area

- The Single Euro Payments Area (SEPA) affects all companies doing business with European partners and sending or collecting payments in euros
- SEPA introduces two new payment instruments, replaces local payment formats, and requires the utilisation of new master data for payments

SEPA currently comprises of 32 countries, including the 27 member states of the European Union, (euro zone and non-Eurozone members). This also includes European Economic Area (EEA) members Iceland, Liechtenstein, and Norway, as well as Monaco and Switzerland.

The countries are: ***Austria, Belgium, Britain, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland (Republic of Ireland), Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Monaco, Netherlands, Norway, Poland, Portugal, Romania, Slovenia, Slovakia, Spain, Sweden, Switzerland.***

Compliance Update

"Get ready for SEPA by 1.2.2014. Act Now!" is the advice from The European Payments Council (EPC)

The single euro payment area (SEPA) payment instruments are mandatory standards that all companies operating in Europe need to adopt. The SEPA payment formats for SEPA credit transfers (SCTs) and SEPA direct debits (SDDs) become obligatory on 1 February 2014 for Eurozone countries (it is October 2016 for those European countries not in the single currency). Companies need to begin thinking about their migration project now

Corporations that are not ready to use SEPA formats by 1 February 2014 could risk not being able to make credit transfers or direct debits at all, and will incur costs to resubmit payments with incorrect data. It is not yet clear if there will be any regulatory or financial penalty for non-compliance.

Current Take-up Rates - The information below is compiled by the European Payment Council (EPC) with updated numbers being released regularly.

- As of August 2012, the share of SEPA Credit Transfers (SCTs), as a percentage of the total volume of credit transfers generated by bank customers, amounted to 29.8% in the Euro area (European Central Bank (ECB) SEPA Indicators).
- As of August 2012, the share of SEPA Direct Debits (SDDs), as a percentage of the total volume of direct debits generated by bank customers, amounts to 1.9% (ECB SEPA Indicators).

Many corporates are still unaware of the tangible benefits of SEPA and that there is now an urgency to migrate in time, the adoption rate varies widely across Europe. Belgium, Finland and Luxembourg have the highest rates of SEPA adoption across the continent so far.

Case Study (Feedback from a Transport Service provider who has implemented SEPA)

Below is feedback directly from a Transport Service Provider operating in many countries throughout Europe who commenced its SEPA Programme in 2010 and implemented in December 2012. The article was first published in GT news.

Benefits and Pitfalls of an SDD Implementation Project - *The advantages of completing a SEPA migration project, ahead of the 1 February 2014 migration date for Eurozone countries (non-euro countries follow in 2016), were numerous but principally the benefits are:*

- ***Standardisation*** *of SEPA processes in all European countries. This means staff no longer need to be conversant with numerous direct debit procedures, just one process is sufficient.*
- ***Optimisation*** *of the banking and cost structure.*
- ***Better Risk Control*** *through the uniform repeal deadline in all countries.*
- ***Return Debit Handling*** *is also standardised, which is a great improvement on the various return debit handling processes.*

However, corporates also need to bear in mind the following challenges and considerations:

- ***The Complexity*** *of the SEPA introduction should not be underestimated.*
- ***It's not just an IT project****, the whole organisation is affected.*
- ***Customer Communication*** *is paramount because many smaller companies still have low SEPA awareness.*
- ***Communication with Banks*** *is also important. It's not always easy to identify the SEPA expert at a bank.*
- ***Error Handling Procedures****, such as incorrectly completed mandate forms, should not be underestimated. Resolving such errors with your customers can be time-consuming.*

Conclusions

"The company is prepared for the SEPA compliance deadline on 1 February 2014. We can now use standard SEPA Credit Transfer (SCT) payments and a uniform direct debit system across the whole SEPA region. This means we just need one direct debit mandate format and we can also optimise our bank account structure. At the moment, we still have the national direct debit systems running in parallel so at this stage it's too early to make any judgments about the real benefits of the SDD (B2B), but we expect to gain definite efficiency benefits.

I recommend that companies address the topic of SEPA as soon as possible and start the implementation. There is little effective time remaining until the 2014 migration date and banks really have to get the message across to their customers about what is required for the transition to SEPA. Since the beginning of 2012, there are signs of increasing SEPA awareness among our own customers, but banks and businesses' still have much to do in terms of education."

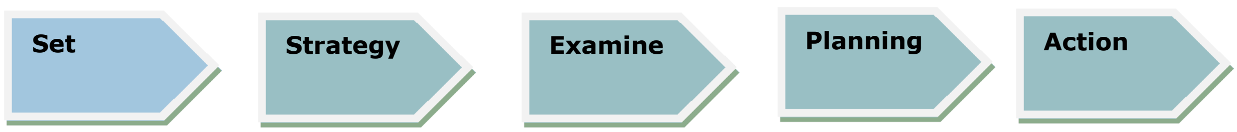
Immediate Next Steps

SEPA Implementation is no longer a recommendation, it is imperative that organisations start their analysis and implementation plan immediately with IT development lead times and business pressures February 2014 will arrive sooner than you think.

The scope of the changes required is extensive, below are just some of the recommended immediate next steps

- Create a Project Plan for SEPA compliance.
- Identify Relevant resources
- Engage with your banking partner
- Choose the right IT strategy
- Analyse the impact on operational models, Process, Data and systems in order to identify which changes are required to achieve SEPA compliance.

The ICM Consulting Methodology



The ICM Consulting Methodology and toolkit guides you logically through the steps required to implement SEPA, whilst allowing you to realize the benefits SEPA can bring. We can provide support where required within this end-to-end framework, but the ***ICM*** approach recommends the majority of the work is completed by the business with guidance and support from the ***ICM Consulting Team***.

For more information and to discuss how the ICM can assist you in developing and implementing SEPA for your business please contact qicm@icm.org.uk

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