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Unleashing the potential of SEPA

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SEPA promised to turn Europe into a domestic market for cash management, and it is only a matter of time before it does. In order to unleash SEPA's full potential, SEPA-compliant corporations and public bodies should address a number of critical challenges; then -and only then- will SEPA foster a true framework for working capital innovation.

By boosting the efficiency of the payment and collection systems, SEPA has led a host of positive changes, big and small. It has introduced new requirements like the use of the IBAN to identify debtors and put creditors in charge of managing the mandate life-cycle. Those who organise their collections via the new SEPA B2B scheme can now debit non-consumers without the risk of a refund. There is a host of new benefits: more standardised messages; less bank accounts; the ability to optimise the internal reconciliation process -thanks to enhanced E2E reference and data fields, and unaltered remittance information. Looking further ahead, as the payment and collection processes are streamlined, flows can be centralised and corporates can even set up payment factories.

Generally speaking, SEPA is a powerful booster that will optimise working capital, and that is the part that the most forward-thinking corporates want it to play. Additionally, now that the SEPA formats are integrated, they want it now.

With the SEPA migration behind them, corporate treasurers are finding that they are only at the outset of a new, promising era. Taking a closer look at the SEPA-related processes that they have just implemented, they will probably find that all is not as simple as they had expected. A host of opportunities for post-SEPA innovation will bloom in the years to come, but the road is paved with challenges that the corporates must address, among which some are major.

A complex payment environment

The world of payments is incredibly complex. Take a company that has turned global: it is likely that the management of its cash is rather decentralised and that its payments are processed through multiple banking communication channels. The combination of heterogeneous IT systems and bank formats leads to blurred visibility of working capital flows, higher costs and even non-compliance to regulations. Meeting SEPA's end-date has been quite a challenge for some treasurers, but the multiple local discrepancies have made it even more difficult. In this context, a true local expertise remains indispensable.

Local requirements: experts needed

SEPA brings a new set of payment formats and XML ISO-based messages. The difficulty is that ISO standards allow many options. Although the leading banks and SEPA communities have tried to provide guidelines, there are still far too many possible interpretations and variables. What was initially designed to be a "one size fits all" concept has led to an incredible variety. Endorsed by many leading banks, the Common Global Implementation

(CGI) initiative aims to set a single, universal standard (see box 1). Meanwhile, corporates operating in multiple countries must ensure that they are supported by banking partners with a strong expertise of local formats ?and that is particularly true for corporates that manage their payments and collections centrally.

Mandate management: local vs. international

The mandate life-cycle is described in the EPC Direct Debit Rulebook, but the complexity of the DD scheme has led communities to use shortcuts and interpretations with the objective to make it easier locally. The challenge with SEPA is that what became easier for local players made it more complex at an international level. Abiding by a host of 'easy' rules set up by different communities and integrating local migration rules was quite feasible; but in some cases, it has led to higher rejection rates -a treasury risk that must be taken seriously. The fact is: the kick-off phase is always a challenge; but once things are up and running, the benefits are quick to be seen.

Accounts statement: aiming at XML

Accounts statements also deserve treasurers' full attention because banks tend to provide SEPA transaction statements and status reports that look like legacy report tools. Obviously, even global banks find it challenging to provide a wide range of variables. However, unless they do, SEPA will not provide its full potential. Because the SEPA XML reporting is much richer, it is more of a challenge for banks to provide the data ?unless of course they have direct access to their clients' ERPs, in which case corporate treasurers will have an exhaustive overview of their liquidity flows.

SEPA has the potential to open the gates to transform the treasury landscape within Europe and help companies gain a competitive advantage as a result. To which extent SEPA will achieve this, depends on the ability of corporate treasurers to overcome some very concrete challenges. Because of what it takes to raise them, let us hope that they get the dedicated advisory and the expert support they need to turn SEPA into the starting point of a cash management strategy that is geared towards value creation.

XML: towards a *universal* standard?
SEPA credit transfers and direct debits are based on ISO 20022 XML formats. The objective of the CGI* (Common Global Implementation) is to create a set of universal XML-based payable and receivable messages that are supported by any bank, corporate, or vendor worldwide. The CGI is also engaged with standardising bank account reporting, including the CAMT053 (account statement) and CAMT052 (intraday) so that they provide more data (e.g.: end-to-end reference of operation, ultimate creditor for payments on behalf) than the current MT940 / MT942 messages. ?This initiative, strongly supported by BNP Paribas, will mainly benefit multinational corporations by:

- Standardising bank communications across all players.
- Improving automated reconciliation levels through enhanced reference data.

- Reducing internal IT costs.

BNP Paribas is actively involved in this initiative, having designed the implementation guidelines for RIBA in Italy and for LCR in France through the Direct Debit message (pain 008).

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* CGI is a common initiative by major global banks, corporates, ERP vendors, and SWIFT

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Implementing SEPA is mandatory, but once its new system is up and running, corporates will be eager to take advantage of its full potential. It appears that their expectations vary considerably, depending on how they approached SEPA in the first place.

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The SEPA migration was a big step towards achieving a single domestic market. Nevertheless, there a still some challenges to be faced.

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