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Unlocking the Ultimate Bank Account Centralisation Model

Centralisation of payments and collections, and simplification of bank account structures, have been amongst treasurers' and finance managers' objectives for many years. The challenges have often proved insurmountable - but that is changing.

The ultimate bank account structure has remained an elusive objective for many companies. But with the Single Euro Payments Area SEPA (SEPA) instruments now in operation across Europe, these challenges are becoming far easier to overcome, and very real opportunities now exist for centralisation, simplification and operational efficiency.

An Easier Pathway?

Over the past few years, there have been three key developments that are arguably 'game changers' in the quest for the ultimate bank account model in Europe. Firstly, despite the enormous challenges in defining and implementing a set of payment instruments and formats across 32 countries, the value of a common market framework cannot be underestimated. Secondly, the use of XML formats for financial messaging, both within and beyond SEPA, offers both the technical standardisation and widespread industry recognition on which successful centralisation depends. Finally, by enabling secure, robust multibank connectivity, SWIFT is frequently a central component of corporations' centralisation initiatives.

However, while the payments terrain in Europe may be more hospitable, rationalising and centralising bank accounts remains challenging. Although domestic credit transfers and direct debits have been replaced by SEPA instruments, there are a number of local payment instruments that remain outside the scope of SEPA and will therefore continue to be a part of the domestic payments landscape. In France, for example, cheques remain a popular payment instrument (2.8 billion transactions in 2012, compared with 3.1 billion credit transfers, according to the European Central Bank).

Different consumer and market practices also exist across Europe. While card payments are popular in many countries, the use of cards is far less common in Germany (600 million in credit card transactions in 2012) while direct debits are widely used (8.8 billion). Added to these issues, the use of additional optional services (AOS) that have been permitted in some countries create further complexity for companies seeking to centralise and rationalise accounts, such as SEPA Electronic Database Alignment (SEDA) in Italy for the exchange, processing and routing of mandate-related information between financial institutions in accordance with L'Associazione Bancaria Italiana (ABI) rules.

While these issues add complexity, they should not impede companies' pursuit of the ultimate bank account model, and it is possible to pay from, and into, a single euro account across 32 countries. What is feasible, however, and what is desirable, may differ substantially across corporations, depending on their industry, business model, culture and technology infrastructure.

The ultimate bank account centralisation model is typically accepted to be a single account for either/both payments and collections, supported by an in-house bank to facilitate payments-on-behalf-of (POBO) and collections-on-behalf-of (COBO). These techniques were first introduced around 10 years ago, but it is only since SEPA and XML became part of the fabric of cash management in Europe that we have seen a shift from theory or small-scale implementation to best practices in pan-European cash management.

Addressing Challenges in POBO Adoption

Early adopters of SEPA and XML in particular have made significant progress in implementing POBO and COBO, and therefore simplifying bank account structures. When implementing POBO, many companies start with vendor payments, or payments in non-functional currencies, which therefore avoids the need for local entities to maintain foreign currency accounts. In this situation, a resident account is still held in each relevant country for local payments, such as tax and salary payments, although execution of these payments may still take place centrally.

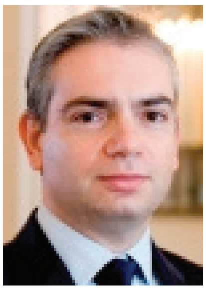
Although POBO is generally easier than COBO, there are some challenges that treasurers and finance managers often need to overcome, both internally and externally. For example, the accounting procedures for POBO need to be implemented in the enterprise resource planning (ERP) or accounting system(s) to enable both debits to the relevant subsidiary's internal account, and reversal of these entries if a payment is rejected or cancelled. As POBO is now a well-established technique, most systems can support this requirement, but the project may become more complex and involve a wider range of participants.

A second challenge, although increasingly less common, is that the ultimate debtor field held on the XML message is truncated. This only occurs where XML is not used from end-to-end. For example, there may be situations, as a result of the value or timing of a payment (such as after cut-off time), where it is routed through TARGET 2, which uses MT 103 messages rather than XML. This prevents the beneficiary of a payment from identifying the debtor, which can create credit and reconciliation issues. Banks can help customers overcome this by using remittance advices, which can be produced in-house through the ERP or by the bank, that are sent electronically to the beneficiary. Remittance advices should specify which invoices are paid and the ultimate debtor, therefore facilitating easier, more rapid reconciliation. Other solutions are under development to address this challenge, replacing the remittance advice with an electronic data exchange.

The Final Hurdle: COBO

Implementing COBO is typically more challenging, partly as companies have less control over how their customers pay, and there are often commercial sensitivities that make it difficult to stipulate payment requirements.

One of the most significant opportunities that SEPA presented in instrument terms is the cross-border SEPA direct debit (SDD). Although the instrument is now proven and successfully used in a number of organisations, this is not yet universal, partly because of the diverse ways in which mandates are managed in each country, such as in Italy (SEDA) and Portugal. In Portugal, for example, consumers can confirm the SDD mandate through the domestic ATM network, which is a convenient solution for domestic SDD but does not support cross-border SDD. Despite these challenges, however, there are a growing number of successful bank account centralisation projects that include cross-border SDD and COBO.



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