Marking the Start of a New Era with the SEPA End Date

Luca Poletto, Head of SEPA, BNP Paribas Cash Management

Andrej Ankerst, Head of Cash Management, Germany

Robert Mol, Head of Cash Management, Netherlands

by Luca Poletto, Head of SEPA, BNP Paribas Cash Management, Andrej Ankerst, Head of Cash Management Germany, Robert Mol, Head of Cash Management Netherlands, at BNP Paribas Cash Management.

Over the past 12 months, many websites have displayed a 'countdown' to the 1st February 2014 end date for SEPA migration. As the countdown reached 3 months, 1 month, 1 week, anxiety grew, not least due to ongoing uncertainty about the adoption of an additional transition period. While some uncertainty remains, European payments systems did not collapse on 1st February. Rather, this date marks not the end, but the start of a new era for cash management. The challenge for banks, regulators and corporations alike is how best to leverage SEPA as a basis for future innovation.

Progress towards migration

In the final months before the SEPA migration end date, we saw a large number of customers migrating to SEPA credit transfers (SCT) and direct debits (SDD), particularly in December 2013 (74% of credit transfers and 41% of direct debits, source: European Central Bank) and January 2014, when many large remitters completed their migration.

An additional transition period of six months after the formal end date to 1st August 2014 was ratified by the European Parliament on 4th February 2014. The aim of this additional grace period is to enable financial participants, particularly small and medium-sized enterprises, to complete their migration projects without risk of payment rejection. However, notwithstanding this, central banks and banking associations in several countries have already formally agreed differing transition periods that vary from 2 to 6 months, particularly in countries where SEPA migration rates are already high. In Belgium and Ireland, for example, the transition deadline is 1st April 2014 and in Spain, 18th March 2014 for credit transfers and 10th June for direct debits.

Some countries, such as Estonia and Finland, have rejected the additional transition period. In Italy, for example, processing of legacy transactions during the 6 month transition period is carefully monitored by the Bank of Italy, while in Luxembourg; the six month additional transition period applies only to direct debits. In some instances, such as in Austria, France and Greece, central banks have not yet confirmed an official position (as at 4th February 2014) but we expect these announcements shortly. These additional transition periods (if any) are of limited value to treasurers and finance managers of multinational businesses that may have payments and collections activities in countries with differing arrangements. In these cases in particular, companies should complete projects as a matter of urgency.

The need for more time?

Bearing in mind that some countries have adopted a different position to the European Commission's six month additional transition period, and the recent surge towards adoption, some have questioned whether it was necessary to introduce this period at all. Migration has been quicker in some European countries than others, and in some cases, the need for more time to complete migration has been greater, such as in Germany (see Box 1). Furthermore, while large multinational corporations and domestic billers and remitters with large volumes have generally had strong awareness of SEPA and the resources to enable timely migration, small and medium-sized enterprises (SMEs), particularly those that only operate domestically, are more likely to lag behind their larger peers.

Regional standards, local implementation

Another frequent question relates to additional optional services (AOS), the use of optional schemes (e.g. COR1), and the waivers

Box 1. SEPA migration in Germany

"The Bundesbank and the banking community have made a concerted effort to encourage and support SEPA migration. Nevertheless, organisations in Germany have been slower to migrate to SEPA than their peers in other European countries, particularly for direct debits. As direct debits are very common in Germany, with huge volumes, efficient and accurate processing is essential. Consequently, many waited for the go-live of the COR1 SDD which only happened in November 2013, leaving a very tight window for migration. Adoption of SCT and SDD has grown significantly since then, and although most companies were able to comply with the formal end date, the additional transition period comes as a welcome opportunity for many corporates to refine formats and complete testing. For the SMEs who did lag behind with their migration, the additional transition period will allow them to allocate the necessary time and resources to master the migration successfully.

Andrej Ankerst, Head of Cash Management, Germany, BNP Paribas

that have been agreed in some countries. In particular, there may be a concern that potential deviations from the standard EPC schemes conflict with the central SEPA objective, namely to standardise payments and collections across the European payments area. The difficulty is that although this objective remains at the forefront of SEPA discussions, the reality is that it is almost impossible to fully harmonise the 18 euro countries' diverse payment and collection methods, systems and cultures in a single step. COR1, for example, has more similarities with the legacy direct debit format in Germany, and therefore lowers the barrier to migration, and relieves some of the pressure on IT departments and vendors.

For multinational corporations operating in more than one European country, it can be difficult to determine how best to treat these AOS and variations. In general, we would suggest that companies with cross-border activities adopt XML ISO 20022 standards to achieve consistency across the region. Where a company has a large domestic presence in a particular market, we support local variations where they exist, so that companies can take advantage of additional features specific to local market practice.

The end of the beginning

While the formal end date for SEPA migration has now passed, we are really at the beginning, not the end. The basic setup of SEPA is now complete, but there is still considerable progress that will be made in the years to come, such as incorporating the remaining niche products, migrating Euro payments from outside of the Eurozone and refining formats. For example, migrating niche products (which should be done by 2016) will be challenging bearing in mind the specific nature of these instruments and the need to maintain similar service levels (see Box 2). Furthermore, by providing a common starting point for payments and collections across the European payments area, SEPA provides a platform for future innovation beyond the basic instruments that are in place today.

Those that have completed their migration projects are now in a position to leverage the opportunity that harmonisation across the European payments area presents. Although many companies recognised the potential to centralise activities such as payments and collections, most migrated to SEPA on an 'as is' basis, and/or country by country, so they will now be looking at a second project phase to leverage the opportunity for greater harmonisation.

Furthermore, the scope of cash management centralisation, automation and simplification projects can extend beyond the Eurozone. For example, we are also helping companies to expand their adoption of XML ISO 2002 formats on a global basis. Banks such as BNP Paribas are continuing to invest in XML to enable standardisation of services such as account statements, payment status reporting etc. Companies that have large direct debit volumes should be looking at, and potentially participating in eMandate initiatives. These offer considerable potential to larger remitters for streamlining the mandate management process, and some pilot projects are already underway to accelerate mandate collections.

1st February 2014 was the start date of a new era for payments, collections and cash management in Europe and beyond. In some cases, the additional transition period will allow smaller companies in particular to complete and refine their migration projects, but there should be no loss of momentum towards completion of technical migration projects. Once this has been done, companies can turn their attention to leveraging the opportunities that SEPA presents, and participate in initiatives that explore innovations that can be implemented across the region for greater efficiency and convenience for payments and collections in the future. □

Box 2. SEPA Migration in the Netherlands

"SEPA migration has not posed major challenges in the Netherlands, with relatively high SCT and SDD adoption by 31st December 2013 (85% and 55% respectively, source: ECB). There is one waiver that has been applied, namely to direct debits used for lottery purposes, as it would not be feasible for the right to reverse direct debits to apply. A second waiver has recently been requested to enable banks to continue to offer a BBAN to IBAN conversion service for individual clients (consumers) until 1 February 2016.

As in many other European companies, smaller businesses have found it more difficult to migrate to SEPA payment instruments before the formal end date, so the additional grace period will enable them to complete the final stages without the risk of payment rejections. Larger companies are using the additional transition period for further testing and refinement to reduce rejections and enable automated reconciliation."

Robert Mol, Head of Cash Management, Netherlands, BNP Paribas