Singing the same song

More than just a regulatory obligation, SEPA offers corporate treasurers the chance to harmonise their payment and collection systems – if they're willing to put in the extra work. *Liz Salecka* reports.

The centralisation of corporate treasury functions featured prominently at this year's Sibos conference in Dubai, with discussion also focused on how companies can capitalise on Single Euro Payment Area (SEPA) migration projects by centralising their payment and collection activities.

SEPA, which will see the creation of a single market in euro payments, is expected to facilitate payments centralisation for corporates active in the euro area by standardising the various terms, conditions and processes relevant to payments and collections.

"Companies need to look beyond SEPA as a compliance project and something which they need to spend time and resources on – and consider going the extra mile to get additional benefits," says Dieter Stynen, head of cash management corporates (CMC) for Western Europe at Deutsche Bank.

Stynen adds: "Payments centralisation will be much easier to achieve once SEPA is in place because companies will be using exactly the same file format for payments across the SEPA zone and the fee structure will be the same – regardless of whether a payment is domestic or cross-border. The processing and execution of all payments will also be the same, and will happen within identical timeframes."

Meanwhile, Filipe Simao, head of client advisory and strategic marketing at BNP Paribas, believes that SEPA represents "a quantum leap" for cross-border direct debit collections. "We have never before seen any level of harmonisation in the way that collections are conducted – they were always subject to different legal domestic frameworks, and relied on different formats," he says, pointing out that SEPA will also promote euro collections across borders from one centralised location.

On the factory floor

The centralisation of payment and collection operations, which typically involves companies establishing a shared service centre or payments factory in one jurisdiction for all activities previously handled at local subsidiary level, can be a complex task. Undertaking this initiative involves organisation-wide change and has human-resource implications. But there are a number of benefits, including improved operational efficiency and cost savings (see box).

"For companies setting up payments factories, there are two main benefits: greater efficiencies – including

cost efficiencies, which come from economies of scale and specialization – and greater centralised control over payments operations," says Simao. "Companies are put in a better position to enforce internal policies governing payments."

Regardless of this, there are also issues that corporates must consider, including whether they have the necessary IT infrastructure.

"Companies that rely on different Enterprise Resource Planning (ERP) and accounting systems in different countries will find it much more difficult to centralise payments because they do not have a central database," says Stynen, pointing out that such companies should achieve migration to SEPA first, and then consider additional projects to improve their systems transparency, such as investing in a uniform ERP system: "By examining the benefits achievable in the SEPA environment from day one, they should be able to draw a stronger business case for this type of investment."

The location of a centralised payments factory is also crucial, and should take account of various factors, including the availability of well-educated, multi-lingual staff with relevant IT and operations skills; the cost of employing local people; the extent of any timezone

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variations; local tax and regulatory framework; and country risks.

Stynen points out that, as a result of these requirements, Eastern Europe has emerged as one of the most popular locations – particularly countries such as Poland, Hungary, the Czech Republic and Slovakia, where local people are well-educated, multi-lingual and cheaper to employ than in Western Europe. There are also no timezone issues. "People [in these countries] are also attracted to work for multi-national corporations as it can help them advance their professional careers significantly," Stynen says.

He adds that corporates are selecting Eastern Europe as a location in which to set up payment factories regardless of their own presence in the region. "Once companies have a uniform ERP system, they can centralise their payments anywhere," he says. "They don't need to set up a payments factory at their head office premises."

Companies centralising their payments also need to consider whether they want to go it alone or outsource activities to a third party with an established facility, employing the specialist skills required.

However, here Stynen notes that the trend is for fewer companies to make use of outsourcing processes. "They prefer to take ownership and have control over their

Benefits of centralising payment and collection operations

- Improved operational efficiency;
- Cost savings;
- Easier administration;
- Greater centralised control over all payment activities;
- Simplified cash pooling – there will be less need for centralised liquidity management structures as cash flow will be managed from one place.

payments as they are seen as a critical component of the entire value chain. There are also fewer providers of outsourced services in the marketplace today," he says, noting that as such providers need to achieve a critical mass in terms of the volume of payment and collection flows they manage, this is often not a viable option for small or mid-market companies with lower payment volumes.

African ambitions

Already, many corporates are considering payments centralisation projects. "US companies with a large presence in Europe are often the earlier adopters of such solutions," Stynen says. "They already saw Europe as one zone, and SEPA has made it all the more so by enabling unified payments and collections within this zone."

Similar initiatives are being considered by companies in other EMEA regions, although a lack of uniform regulatory frameworks presents an obstacle. "Across the SEPA region, the regulatory regime governing payments will be exactly the same, and this makes setting up a centralised payments factory easier, but in the Middle East each country has its own local legal and regulatory infrastructure dictating what can and cannot be done," says Stynen, pointing out that any move in this direction by Middle Eastern companies will also depend on whether they have the critical mass of payments needed to make centralisation effective.

"It is also the case that for some companies the opportunities to do this may be reduced because of their existing systems and IT infrastructure. They may still have to make investments here in order to move forward."

Interestingly, however, there may be greater opportunity for payments centralisation in Africa, where there are two major initiatives geared at achieving economic and monetary union among countries in the east and west of the continent.

Simao points out that the West African Economic and Monetary Union (WAEMU) will promote trade flows across West Africa and encourage companies to centralise their treasury and payment activities in one location for the region.

"The West African Economic and Monetary Union (WAEMU) gathers together eight countries in the region," he says. "Progress made in technology, as well as in the tax and legal environments, have set the scene for further centralisation and a review of local means of payment. It is very likely that we will also see initiatives like SEPA geared at harmonising payments in West Africa – a move that will be encouraged by mobile banking market take-up." ●